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In the Supreme Court

OF THE

United States

OCTOBER TERM, 1971

No. 71-824

HARVEY and ELAINE SIEGEL, et al., *Plaintiffs-Petitioners,*

vs.

CHICKEN DELIGHT, INC., et al., *Defendants-Respondents.*

PETITION FOR A WRIT OF CERTIORARI
to the United States Court of Appeals
for the Ninth Circuit

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PETITION FOR A WRIT OF CERTIORARI to the United States Court of Appeals for the Ninth Circuit

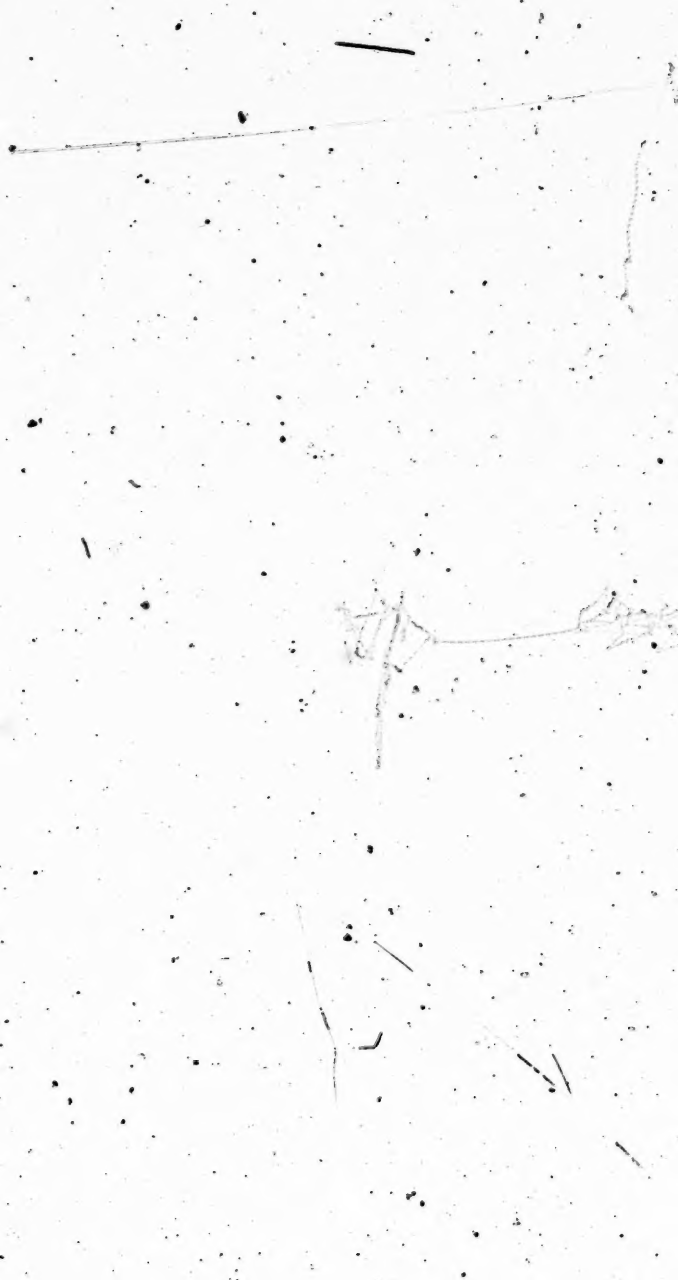
Plaintiffs-Petitioners (hereafter plaintiffs) pray that a writ of certiorari issue to review part of the judgment and opinion of the United States Court of Appeals for the Ninth Circuit entered on September 9, 1971.

Plaintiffs are a class of franchisees operating as retail sellers of hot prepared meals under franchise arrangements with Defendants-Respondents (hereafter defendants), as franchisors.

OPINIONS AND ORDERS BELOW

The opinion of the District Court for the Northern District of California is reported at 311 F.Supp. 847 (N.D. Cal. 1970) and is printed as Appendix B hereto. The opinion of the Court of Appeals for the Ninth Circuit is reported at 448 F.2d 43 (9th Cir. 1971) and is printed as Appendix A hereto. The District Court ordered a separate trial on the issues of violation and fact of injury on March 2, 1970 (Appendix C).[1] After completion of the introduction of evidence before a jury and upon plaintiffs'

[1]The remaining issues which were separated and not tried were the amount of damages and the liability of defendant Consolidated Foods Corporation, the parent of the Chicken Delight companies.



motion, the District Court directed the verdict of the jury in favor of plaintiffs on the issue of violation, based upon the existence of a per se unlawful tying arrangement. On the issue of "justification," the District Court directed the verdict of the jury in favor of plaintiffs as to the tied purchases of some products (packaging) and permitted the issue of justification as to other products (the food mixes, spices and cooking equipment) to be determined by the jury pursuant to the Court's instructions. The jury returned its verdict for the plaintiffs on the justification issues relating to the food mixes, spices and cooking equipment.

The District Court, also upon plaintiffs' motion, directed the verdict of the jury in favor of plaintiffs on the issue of fact of injury.

Thereafter, on defendants' motion, the District Court certified an interlocutory appeal to the Court of Appeals for the Ninth Circuit pursuant to 28 U.S.C. § 1292(b), based on its finding that controlling questions of law as to which there is substantial ground for difference of opinion existed and that an immediate appeal could materially advance the ultimate termination of the litigation (Appendix D).

The Court of Appeals, on defendants' application, granted certification pursuant to 28 U.S.C. §1292(b) (Appendix E).

JURISDICTION

The opinion and judgment of the Court of Appeals for the Ninth Circuit were entered on September 9, 1971. The mandate of that court has been stayed upon application by both plaintiffs and defendants. The jurisdiction of this Court is invoked under 28 U.S.C. §1254(1).

QUESTIONS PRESENTED

1. (a) Is the fact of damage established within the meaning of §4 of the Clayton Act (15 U.S.C. §15), where it is undisputed that a buyer has paid illegally high prices for materials for use in his business, where the buyer proves the amount of the overcharge, and where there is no proof that the high prices resulted from any other source than the seller's illegal activity?

(b) Whether, if the *fact* of damage is thus established, the seller is entitled to introduce evidence in support of a claim for reduction of such overcharge damages based upon the contention that services and trademark licenses, which the seller furnished to the buyer but which were separate and distinct from the illegally priced materials, were furnished for less than their reasonable market value.

(c) Whether, if the fact of damages is thus established, the seller is entitled to introduce evidence in support of a claim for reduction of such overcharge damages based upon the contention that services and trademark licenses, which the seller furnished to the buyer but which were separate and distinct from the illegally priced materials, were furnished for less than their reasonable market value, particularly where by its form of contract the seller, not the buyer, chose to employ the illegal activities and to charge less than the reasonable market value for the separate and distinct services and trademark licenses.

2. (a) Is the *fact* of damage established within the meaning of §4 of the Clayton Act where a per se unlawful tying arrangement consisting of a trademark license as the tying item and certain commodities as tied items is proved, and it is undisputed that the buyer has paid a

higher price for the tied commodities than he would have paid in the absence of the tying arrangement?

(b) Whether if the fact of injury and damage is thus established, the seller is entitled to introduce evidence in support of a claim for reduction of such excessive price paid for the tied commodities, based upon the contention that the trademark license was granted to the buyer by the seller at a price less than bargained for or less than its reasonable market value.

(c) Whether, if the fact of injury and damage is thus established, the seller is entitled to introduce evidence in support of a claim for reduction of such excessive price paid for the tied commodities based upon the contention that the trademark license was granted to the buyer by the seller at a price less than bargained for or less than its reasonable market value particularly where, by its written form of contract, the seller, not the buyer, chose to employ the per se unlawful tying arrangement and to grant the trademark license at a price less than bargained for or less than its reasonable market value.

STATUTES INVOLVED

The statutes involved are §1 of the Sherman Act (15 U.S.C. §1), §4 of the Clayton Act (15 U.S.C. §15) and relevant portions of the Lanham Act (15 U.S.C. §1115(b)(7), and are set forth in Appendix F.

STATEMENT OF THE CASE

This case, filed on January 5, 1967, is a class action brought under 15 U.S.C. §§1, 15 and 26, in which 800 current and former franchisees of the Chicken Delight sys-

tem seek treble damages and declaratory and injunctive relief as a result of purchases made pursuant to an unlawful tying arrangement contained in the franchise agreement (Appendix G). The agreement required franchisees to purchase their full requirements of packaging materials, dry food mixes and cooking machines from defendants, as a condition of the initial grant of the trademark license and as a condition of continuing use of the trademark, trade name and system of operation. Such arrangements were held unjustified, per se illegal tying arrangements by both the District Court and the Court of Appeals.

There is no dispute that the charges for packaging materials, dry food mixes and cooking machines which the franchisees paid were prices which, as defendants put it, "included a gross profit or markup higher than markups generally employed by distributors of such commodities" (Brief of the Appellants in the Court of Appeals, p. 9). At trial, plaintiffs introduced an overcharge computation which showed that the plaintiffs could have purchased the tied commodities from regional or national distributors during the entire damage period at significantly lower prices than they were required to pay the defendants. Defendants introduced no evidence to the contrary. Defendants asserted that the overcharge was a "method of payment for the trademark license," hence constituting a licensing fee. In the District Court and in the Court of Appeals the defendants argued that, as a matter of law, the value of the tying and tied products necessarily equal the price paid for both. Therefore, defendants argued, as a matter of law there could be no damages arising from such purchases. Plaintiffs, on the other hand, argued that once an overcharge was established, as a matter of law

such overcharges were damages under §4 of the Clayton Act and there could be no diminution of such damages by an offset based on the value of the trademark license.

The District Court agreed with plaintiffs' argument and ruled as follows:

> "On the issue of fact of damage, this Court has determined as a matter of law that the fact of damage is established. Defense counsel persists in his argument that the upcharge in the tied products should be offset by a 'reasonable value' assessed for the Chicken Delight license. The Court has ruled that this evidence of valuation is not relevant. The system was sold to the franchisees on a specific basis and the evidence is complete, reflects and memorializes the basis upon which the transactions were consummated with the franchisees. The contract and all written representations by the company stated that there were no franchise fees or royalty payments. This Court will not attempt to restructure the system of defendants into one which is legally constituted and then allow an offset for imaginary or suppositious royalty fees. Such would be directly contrary to the avowed policy of the Sherman Act.
>
> "Without an offset for the supposed value of the Chicken Delight trademark, the overcharge on the tied items is established. As a matter of law therefore, the Court finds the fact of damage." (311 F.Supp. at 852)

The Court of Appeals held contrary to both defendants' and plaintiffs' contentions. It held that because two items are involved in a tie, it is necessary to value both.[2]

> "To ascertain whether an unlawful arrangement for the sale of products has caused injury to the pur-

[2]They are not dependent upon each other except as defendants chose to make them so. Their essential nature is that they are separately salable and should be sold separately, each at its own value.

chaser, the cost or value of the products involved, free from the unlawful arrangement, must first be ascertained." (Cases cited) 448 F.2d at 52.

The Ninth Circuit rejected defendants' contention that since the value of both the tying and tied items must be taken into account, no injury could result as a matter of law. The Court of Appeals said:

> "We cannot agree. The franchisees' apparent willingness to pay the ultimate cost of the arrangement is clouded by the fact that they may well have been unaware of what the cost would come to in practice. Had the full amount of the over-charge on the tied items been openly specified as the cost of the tying items, agreement might not have been forthcoming. We can hardly rule as matter of law that it would have been." 448 F.2d at 52-53.

REASONS FOR GRANTING THE WRIT

Plaintiffs submit that the Ninth Circuit's decision, Section III, entitled "Measure of Damages" (Appendix A, p. 15) should be reviewed by the Court because: (A) it conflicts with this Court's decisions in *Hanover Shoe v. United Shoe Machinery Corp.*, 392 U.S. 481 (1968), *Southern Pacific v. Darnell-Taenzer Lumber Co.*, 254 U.S. 531 (1918) and *Chattanooga Foundry & Pipe Works v. City of Atlanta*, 203 U.S. 390 (1906); (B) it conflicts with the decision of the Courts of Appeals in *Commonwealth Edison Co. v. Allis-Chalmers Mfg. Co.*, 335 F.2d 203 (7th Cir. 1964), *Fowler Manufacturing Company v. Gorlick*, 396 F. 2d 1012 (9th Cir. 1969), *Lessig v. Tidewater Oil Co.*, 327 F.2d 459 (9th Cir. 1964) and *Atlantic City Electric Company v. General Electric Company*, 226 F.Supp. 59 (S.D.N.Y. 1964), *aff'd per curiam*, 337 F.2d 844 (2d Cir.

1964); (C) it conflicts with the decision of this Court in *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969); (D) if *Hanover* does not apply, it raises an important and unsettled question of federal law concerning the availability to an antitrust violator of a reduction or setoff in damages inflicted by an overcharge to the buyer of tied items in a per se unlawful tying arrangement; (E) if *Lear* does not apply, it raises an important and unsettled question of federal law concerning the availability to the federal registrant of a trademark and trade name engaged in licensing such trademark or trade name as a tying item in a per se unlawful tying arrangement of a reduction or setoff against damages occasioned by an overcharge on tied items equal to the amount of a reasonable license fee; (F) it conflicts with the provisions of California Evidence Code §622 and *Boyd v. Liefer*, 144 Cal. 336 (1904), the applicable and controlling state law on estoppel by contract; (G) it presents a controlling question of law as to which there is substantial ground for difference of opinion; (H) it may materially advance the ultimate termination of the litigation and prevent extraordinary inconvenience because there exists a clear-cut issue of law fundamental to the further conduct and disposition of this case.

(A) CONFLICTS WITH HANOVER SHOE, DARNELL-TAENZER AND CHATTANOOGA FOUNDRY

Plaintiffs respectfully submit that the Court of Appeals decision respecting damages is in conflict, in reasoning and principle, with this Court's decisions in *Hanover Shoe*, *Darnell-Taenzer* and *Chattanooga Foundry*.

The Ninth Circuit's opinion stated the question of injury as follows:

> "The question here is whether the plaintiffs have suffered injury *by virtue of the unlawful arrangement* to which they were subjected. That *arrangement of necessity involved both tying and tied products.*" (448 F.2d at 52) (Emphasis added)

It was at this point that the Ninth Circuit failed to follow the law and reasoning of *Hanover Shoe, Darnell-Taenzer* and *Chattanooga Foundry*. The Court of Appeals failed to recognize that plaintiffs suffered damages as the result of an *illegal price* arising from an *"unlawful arrangement."* Hence, plaintiffs here, as in *Hanover Shoe,* sought direct, overcharge damages which this Court defined in *Hanover Shoe* and as to which this Court has severely limited available defenses. Neither in *Hanover Shoe* nor in the partial trial of this case has the position been taken that other and consequential damages arose from an "unlawful arangement." Thus, for example, if the plaintiff in *Hanover Shoe* had claimed that the monopoly of United Shoe Machinery prevented *Hanover Shoe* from entering new and profitable markets, then proof of consequential damages would properly have been called for. This, however, was not the case in *Hanover Shoe,* nor was it the case in the trial of the instant case. Plaintiffs herein sought only overcharge damages arising from the illegal prices of the tied items. The opinion of the Court of Appeals failed to take into account or even discuss the principle of *Hanover Shoe,* although all of the elements were pleaded, argued and proved.

In *Hanover Shoe* this Court made a definitive ruling concerning proof of injury and damages applicable to prices which were illegally high as a result of antitrust violations:

> "We think it sound to hold that when a buyer shows that the price paid by him for materials purchased

for use in his business is illegally high and also shows the amount of the overcharge, he has made out a prima facie case of injury and damage within the meaning of §4." (392 U.S. at 489)[3]

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[3]The franchisees are clearly buyers. By admission of defendants, the prices charged for the tied products were higher than those which would otherwise have been available. There was no contrary evidence. Despite that admission, the Court of Appeals adopted the position that the prices, admittedly stated in terms of prices for tied items, might be construed to include "compensation asked by Chicken Delight" for both the tied and tying items. (448 F.2d at 52) Thus the Court of Appeals, while finding, as plaintiffs allege, that "the contract price was for the tied items" permit defendants to escape the rule of *Hanover Shoe* by accepting an argument that what was admittedly agreed to be the price for the tied items may also have been payment for something else. That argument is directly contrary to the uncontradicted evidence that the franchise agreements made no mention of license fees or revenue; that the product sales were invoiced to the franchisees as ordinary commodity sales without any statement indicating a license fee was included in the prices charged; that defendants' gross profits on the tied products varied from item to item and from year to year, and the mix of products purchased varied from franchisee to franchisee; that defendants themselves did not know how much individual franchisees were supposedly paying for the trademark license; and that since February of 1963, all of the franchise agreements have expressly stated that no franchise fee has been required.

The opinion in discussing damages states that "it is by no means clear that any of the parties to the tying arrangement understood that the tying items were to be given free of charge." (448 F.2d at 52) This lack of clarity did not arise from the franchise agreement, which is clear and undisputed on two points. First, the franchise license was free. Second, that the several prices listed in the franchise agreement were listed solely as commodity prices and nothing else. Earlier in its opinion the Court of Appeals recognized this and correctly stated that:

> "Over its eighteen years' existence, Chicken Delight has licensed several hundred franchises to operate home delivery and pickup food stores. *It charged its franchisees no franchise fees or royalties.* Instead, in exchange for the license granting the franchisees the right to assume its identity and adopt its business methods and to prepare and market certain food products under its trade-mark, Chicken Delight required its franchisees to purchase a specified number of cookers and fryers and to purchase certain packaging supplies and mixes exclusively from Chicken Delight. *The prices fixed for these purchases were higher than, and included a percentage markup which exceeded that of, comparable products sold by competing suppliers.*" (448 F.2d at 46) (Emphasis added)

The described arrangement was held by the Court of Appeals to be a per se unlawful tie-in.

Thus, all of the elements necessary to the establishment of injury and damages set forth clearly in *Hanover Shoe* are present here. Plaintiffs submit that the District Court was correct and properly followed *Hanover Shoe* when it ruled that it would "not attempt to restructure the system of defendants into one which is legally constituted and then allow an offset for imaginary or suppositious royalty fees." (311 F.Supp. at 852)

(1) The Damage Theory of Hanover Shoe, Darnell-Taenzer and Chattanooga Foundry is Based on the Tort Theory of Awarding Damages Incurred as a Direct Result of the Violation

Direct damages, as opposed to consequential damages, are incurred when there is a buyer-seller relationship and the buyer uses the illegally priced item in his business. The court in *Hanover* explained:

> "If in the face of the overcharge the buyer does nothing and absorbs the loss, he is entitled to treble damages. This much seems conceded. The reason is that he has paid more than he should and his property has been illegally diminished, for had the price paid been lower his profits would have been higher. * * * As long as the seller continues to charge the illegal price he takes from the buyer more than the law allows. At whatever price the buyer sells, the price he pays the seller remains illegally high, and his profits would be greater were his costs lower."[1] (392 U.S. at 489)

The direct overcharge damage rule does not stem from buyer's loss of profits incurred in the sale of a commodity of which the overcharged product is a part, but rather has to do with the direct and immediate impact of in-

[1] It is not disputed in this case that plaintiffs used the tied products in their business of selling hot prepared food to the public. They did not resell the tied products as such. They cooked the chicken and other foods in the cookers, seasoned it with the mixes and spices and packaged it in the tied containers.

creasing buyer's cost of operation at the time of his purchase of such product. This principle was held to be correct by the District Court in *Hanover* as the "straight application of sound tort principles with which, when stated in the abstract, probably no one would disagree." *Hanover Shoe, Inc. v. United Shoe Machinery Corp.*, 185 F.Supp. 826, 829 (M.D. Pa. 1960). This principle was affirmed in *Hanover Shoe, Inc. v. United Shoe Machinery Corp.*, 377 F.2d 776, 783-784 (3d Cir. 1967).[5]

Since defendants may not be held liable unless proximate cause is shown, it follows that they cannot escape liability by deducting from plaintiffs' damages amounts resulting from independent factors which tend to relieve some part of such damages. This principle has been clearly announced by this Court. *Southern Pacific v. Darnell-Taenzer Lumber Co.; supra; Chattanooga Foundry and Pipe Work v. City of Atlanta, supra.* The moment the tort occurs the plaintiff has his cause of action. In *Darnell-Taenzer*, Mr. Justice Holmes stated that the tendency of the Court not to go beyond the first step was justified because the law does not permit plaintiff to recover for remote consequences of defendants' acts, and, therefore, the defendants should not be permitted to avoid direct damages by asserting remote benefits. 245 U.S. 531, 533.[6]

This basic theory of tort recovery has even more force in antitrust where the added impact of public policy requires recovery upon proof of an illegal overcharge.

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[5]In the case at bar plaintiffs were *users* rather than resellers of the illegally priced commodities. In *Hanover*, the plaintiff was also a user. The Court described the impact of the illegal price at 392 U.S. at 481, 489.

[6]A recent article concerning this Court's decision in *Hanover* recognized the existence of what the author called the "automatic damage" rule. Pollock, *Automatic Treble Damages and The Passing-On Defense: The Hanover Shoe Decision*, The Antitrust Bulletin Vol. XIII, Winter 1968, at pp. 1185-86.

(2) Direct Damages May Not Be Diminished Except to the Extent That It Be Shown Buyers Could Not Have Purchased the Same Products at Lower Prices in the Absence of the Violation

The policy of the law, as stated in *Hanover, Darnell-Taenzer* and *Chattanooga Foundry,* is to allow no reductions, diminution, setoff or other defense to the recovery of minimum damages, tending to reduce the overcharge damages resulting from an antitrust violation. In controlling cases in which defendants have asserted such defenses, they have been uniformly rejected by the courts. This result is justified by a combination of policy considerations, the directness of damage and practical problems which would be caused by allowing such defenses.

(a) Policy Encouraging Actions and Awards of Damages in Good Faith Antitrust Actions

Hanover Shoe dealt with an illegally high price resulting from monopolization by the defendants.[7] It also dealt with the propriety of reducing *Hanover's* overcharge damages by amounts equal to the overcharges passed on to customers in the form of higher prices and the cost to *Hanover* of capital which it would have had to invest upon purchasing the machines.

The rules precluding the "passing on" and "cost of capital" defenses in *Hanover* stem from broader policies consistently articulated by this Court.

Contrary to many other areas of law, good faith antitrust litigation is encouraged. Plaintiffs successful in proving a violation are rewarded by Congress through

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[7] It makes no difference what type of violation results in the illegally high price. In *Hanover Shoe* the violation was monopolization, in *Darnell-Taenzer* and *Chattanooga Foundry,* as in some lower court cases, *Atlantic City Electric* and *Commonwealth Edison,* it was *price fixing,* and in *Fowler,* it was *price discrimination.* Neither principle nor policy supports a different result in a case involving a *per se* illegal tying arrangement.

the award of treble damages and attorneys fees. During the last four years, this Court has reinforced an already overriding national policy of encouraging such actions. The courts and Congress have provided this motivation in order that claimants will assume the always arduous task of appearing in court to vindicate the public policy embodied in the antitrust laws.

Cries of "bounty hunters" and "unjust enrichment" ignore the fundamental policy against monopolies and undue concentration of economic power and in favor of competition and freedom of commercial choice. The law recognizes that the need for an effective remedy against damage to competition due to antitrust violations overrides any considerations of windfall to the injured or of lack of precision in the proof of damages. *Zenith Radio Corporation v. Hazeltine Research, Inc.*, 401 U.S. 321 (1971); *Zenith Radio Corporation v. Hazeltine Research, Inc.*, 395 U.S. 100 (1969); *Fortner Enterprises v. United States Steel Corp.*, 394 U.S. 495 (1969); and *Perma Life Mufflers v. International Parts Corp.*, 392 U.S. 134, 139 (1968).

In *Radovich v. National Football League*, 352 U.S. 445, 454 (1957) this Court said "that courts should not add requirements to hinder the private litigants beyond what was specifically set forth by Congress."

(b) This Court Has Condemned Vertical Practices Which Deprive Traders of Their Freedom

Within the last decade, this Court has acted with resolution in the formulation of rules proscribing vertical restraints upon trade. Customer restraints imposed by manufacturers upon independent distributors are *per se* violations, *United States v. Arnold Schwinn & Co.*, 388 U.S. 365 (1967). Price restraints imposed by a seller going beyond mere suggestion or unilateral refusal to deal

are now *per se* violations. *Albrecht v. The Herald Co.*, 390 U.S. 145 (1968); *FTC v. Texaco, Inc.*, 393 U.S. 223 (1968); *United States v. Parke-Davis & Co.*, 365 U.S. 125 (1961).

Tying arrangements have been characterized as serving "hardly any purpose beyond the suppression of competition," *Standard Oil of California v. United States*, 337 U.S. 293, 305-306 (1949), and are meant to "fare harshly under the laws forbidding restraints of trade." *Times-Picayune Publishing Co. v. United States*, 345 U.S. 594, 606 (1953).

They inevitably curb "competition on the merits with respect to the tied product." *Northern Pacific R. Co. v. United States*, 356 U.S. 1, 5-6 (1958), and force buyers to forego "their free choice between competing products." *Fortner Enterprises v. United States Steel Corp.*, *supra*, at 498-499; *United States v. Loew's, Inc.*, 371 U.S. 38, 45 (1962).

(c) There May Be No Diminution of Direct Overcharge Damages for Considerations Extrinsic to the Products for Which an Illegal Price Has Been Charged

In *Hanover Shoe, Inc. v. United Shoe Machinery Corp.*, *supra*, the Supreme Court permitted deductions from overcharge damages of only those costs which were directly incident to the sale of the machines. The Court allowed a deduction of simple interest because, as a buyer of the machines, *Hanover* would have paid interest if it had been allowed to purchase instead of lease. However, the Court would not permit the deduction of the "cost of capital" to reflect the cost to *Hanover* of capital which it would have had to invest upon purchasing the machines. 392 U.S. at 504.

Simple interest was allowed because it dealt directly with what the product, which was the subject of the illegal practice, would otherwise have cost. "Passing on"

was disallowed because it dealt not with the cost of the shoe machines but with the price of shoes which were manufactured by the machine. The connection between cost of shoe machines and price of shoes is, no doubt, close, but this Court held the latter to be remote and irrelevant.

Most importantly, however, the Court would not permit United to retain the fruits of its violation by urging that plaintiff had not been injured because it had been able to increase its prices and save cost of capital to compensate for the overcharges.[8]

In its essential nature, the "passing-on" and "cost of capital" defenses are similar to charing a successful plaintiff-buyer for incidental benefits he received in the course of an illegal sales transaction. In *Hanover* defendants argued that since plaintiff had already received from its customers the amount it was claiming from defendant, plaintiff could not recover. Rejecting United's assertion, the Court held that recoupment of overcharges from some other source was irrelevant. Instead the Court recognized the principles "that the victim of an overcharge is damaged within the meaning of § 4 to the extent of that overcharge," 392 U.S. at 491, and that proof of the alleged mitigating benefit received by the plaintiff was too vague and uncertain. 392 U.S. at 493-494.

(d) Proof Vague and Uncertain

The Ninth Circuit opinion, if upheld, will impose a cost upon class members for use of their license in computing

[8]The Court said:

> "[I]t is not unlikely that if the existence of the defense is generally confirmed, antitrust defendants will frequently seek to establish its applicability. Treble-damage actions would often require additional long and complicated proceedings involving massive evidence and complicated theories." 392 U.S. at 493.

overcharge damages. Such a holding is clearly contrary to *Hanover* because proof of the cost or value of the trademark license of Chicken Delight, which defendants never bothered to value until this action came along, is "not susceptible of general agreement."[9] We submit that the case for allowing "the cost of capital" as a setoff in *Hanover Shoe* was a much more appealing one than that made by the Ninth Circuit here. Still, this Court disallowed it.

The rule of *Hanover Shoe* should be applied whether or not the benefit claimed to reduce overcharge damages is received by plaintiff from third parties or from a violating defendant. If mitigation or utter defeat of damages is sought by reason of something of value received by the buyer, external to the actual value of defendants' tied product, then the defense must fail because it likewise intrudes upon the expressed inviolability of the awarded

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[9]The Court of Appeals in *Hanover* said:

"2. Cost of Capital.

United contends that Hanover's so-called cost of capital should have been treated as an element of the cost of acquiring the machinery. The court below disallowed this item, which was defined as 'the rate of return expected by investors on capital funds they place at * * * [a concern's] disposal,' after hearing the conflicting testimony of expert economists called by each party. It found that 'cost of capital' is an economic concept which allows a company to decide if a certain investment is sound by computing the rate of return which will be required on that investment to justify expending funds on it rather than in an alternative investment, and that it is measured in terms of percentage of earnings per share of common stock to price per share, and of percentage of net profits after taxes to stockholders' equity. *It [the District Court] also found that the measurement of cost of capital was vague and not susceptible of general agreement in its application and that in any event it was not a proper element in the calculation of damages but was only a guide to investment.*

The novel concept which United sought to have approved has not yet reached the point of general acceptance even among economists. *We agree with the court below that cost of capital is not sufficiently related to actual costs to be included in an antitrust damage calculation.*" (377 F.2d at 791-792) (Emphasis added)

overcharge damages. For example, if defendants proved at trial that they sold items, which were not subject to the tying arrangement, to class members at prices below the market prices for those items, such benefit to class members would be clearly inadmissible to reduce damages.[10]

It would be a travesty in the enforcement of antitrust policy to permit a seller, who has been found to violate the antitrust laws, to search back through all of his relationships with the plaintiffs to ascertain whether it ever gave the plaintiffs something for less than market value, in order to avoid the consequences of its acts. It would be even more of a violation of antitrust policy to require a trial on the issue of the value of each benefit alleged by defendants to have been given to plaintiffs over the course of their dealings. Moreover, it seems impossible to explain, since the *in pari delicto* defense is denied a franchisor-defendant under *Perma Life Mufflers, Inc. v. International Parts Corp., supra,* why the franchisor-defendant should be permitted to defeat or reduce plaintiffs' proven damages by asserting that it gave plaintiffs something external to the tied products for nothing.

The only diminution of overcharge damages permissible is that intrinsic to determination of the amount of the overcharge for the illegally priced commodities. The issue of the *amount of overcharge* is yet to be tried. This inquiry will consist entirely of the determination of the prices at which class members might have purchased the

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[10]Defendants in effect assert and the Court of Appeals affirmed a defense based upon the contention that in truth their franchise system did require a license fee after all, that it was buried in the profits on the tied items, and that whatever the worth of the franchise system, it should be deducted from plaintiffs' recovery. This theory should meet the same fate as *United Shoe Machinery's* defense and for exactly the same reasons—uncertainty and policy against diminution of overcharge damages.

tied products in the competitive market. Those prices will then be subtracted from the prices actually paid to arrive at the overcharges. Any expense or detriment which might be encountered by a franchisee when purchasing in the competitive market and which was encountered when purchasing from defendants under the tying arrangement, would, of course, be taken into account in assessing the amounts of the overcharges. Such expenses or detriments are intrinsic to the purchase of tied items and the calculation of the overcharge.

Evidence extrinsic of the issue of what would have been paid for the tied items in the absence of the tying arrangement is not relevant.

If defendants believe they are entitled to recover license fees from plaintiffs on a quasi-contract or other theory of recovery, they may pursue the appropriate remedies against plaintiff, as suggested by the Court in *Perma Life Mufflers*. 392 U.S. at 139. However, the effect of the opinion of the Court of Appeals is to reduce or eliminate plaintiffs' recovery based upon the theory that plaintiffs might be liable to defendants to pay some unspecified and unquantified consideration for the trademark license under an unidentified legal theory. This neither *Perma Life Mufflers* nor *Hanover Shoe* will permit.

(e) The Ninth Circuit Opinion Would Necessarily Produce a Long and Complex Trial Concerning Vague, Uncertain Estimates of Value Which Are Not Susceptible of General Agreement

The Court of Appeals ruled "that factual issues remain as to the value of both tying and tied products, free from the tying arrangement; that remand for resolution of these issues is necessary." 448 F.2d at 53.

However, in virtually the next utterance it pointed out that "[H]ad the full amount of the overcharge on the tied items been openly specified as the cost of the tying

items, *agreement might not have been forthcoming.* We can hardly rule as a matter of law that it would have been."[11] 448 F.2d at 53.

Thus, upon retrial, the value of the trademark must be determined, even though defendants assigned no value to it and admittedly gave it away. Defendants will seek to introduce into evidence a set of fictitious circumstances as a basis for reduction of damages in an attempt to prove that the plaintiffs would have become franchisees in the first place if a license fee had been openly sought rather than granting it free. Plaintiffs will counter with evidence that many franchisees would not have signed such agreements if the franchise payments finally determined at trial to be the reasonable value of the license had in fact been "openly specified" at the time of licensing. It is hard to imagine any issue so vague and insusceptible to precise proof.[12]

Even should it be determined that franchisees might have signed agreements other than those actually signed,

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[11]It is wrong, in our view, that the Court of Appeals should adopt the asserted defense when it recognized both that there was an overcharge on the tied items and that such overcharge was not openly specified as the cost of the franchise license. Not only was this "fact" not openly specified, defendants sold the franchise system on the express basis that the license was free. The invoices of the tied items made no mention whatever that a portion of the price paid was compensation for the tied item. It is fair and interesting to ask whether the Court of Appeals would have ordered a trial of the value of the license had defendants licensed it for a one-time payment of $.01 instead of for no charge as in this case.

[12]Allowing such an issue to be tried in the context of the instant case also runs counter to rulings of this Court that a violator of the Sherman Act must bear the risks of uncertain damages. *Bigelow v. RKO Radio Pictures,* 327 U.S. 251, 264-65 (1946). This warning is particularly apt here where it is apparent that the failure to value the trademark license was no more than a sales gimmick. If the Ninth Circuit decision is upheld, defendants who have been found to be violators will receive the benefit of a rule intended to benefit injured plaintiffs. Defendants will be given the opportunity to eradicate plaintiffs' damages by speculating as to the worth of something which, before this case, they deliberately did not value.

vague and uncertain standards would be applied in a necessarily long and complicated trial. A trial of the factual issue of what fee or royalty, if any, the Chicken Delight trademake license might have brought in the competitive franchising market had defendants decided to license it for a fee would be most speculative. Evidence bearing on this point must be looked at in at least two categories. First, should the trier of fact determine the value of the franchise license based upon the manner in which it was represented to potential franchisees in defendants' literature, or upon the value of the franchise license as actually administered after agreements were executed. Because in plaintiffs' view there is a vast difference between the two possible criteria for valuation, plaintiffs will attempt to introduce evidence of the utter failure of defendants to perform their promises as franchisors, thus in truth rendering their fully disclosed franchise system as practically worthless.

Second, the value of the system must be determined by valuing each of the component parts which go to make up a franchise system. Such parts include at least such elements as public acceptance of the trademark and name, degree, effectiveness and cost of training, the type and extent of accounting help, selling techniques, participation in advertising by franchisor and the effectiveness of it, the franchisor's effectiveness in policing standards, and the saleability of a franchise by the franchisee without undue franchisor interference. These are all matters which bear upon value and which buyers of franchises in the market must assess. Because in actuality defendants chose not to value their license, comparisons of the various features of defendants' system must be made to other systems. This comparison must be one taking into account the various components and cannot be a simplistic formula

which defendants attempted at trial.[13] Thus the process of lowering the value for one comparative characteristic and raising it because of another will be the impossible task of the trier of fact. And when the process is done, the conclusion will be vague and inconclusive, and defendants will have been afforded by the Ninth Circuit's ruling a method of escaping penalty for a deliberately imposed restraint of trade.

It remains to be said that neither the issue of passing-on or cost of capital appear to be as difficult to prove as the value of a fast food trademark license with its many components, none of which are identical, to those of other systems. The wisdom of *Hanover*, in our view, is dramatically demonstrated in this case, and that rule should apply.

(B) CONFLICTS WITH COMMONWEALTH EDISON, FOWLER MANUFACTURING, LESSIG AND ATLANTIC CITY ELECTRIC

The decision of the Ninth Circuit here coflicts with *Commonwealth Edison Co. v. Allis-Chalmers Mfg. Co.*, 335 F.2d 203 (7th Cir. 1964), *Fowler Manufacturing Company v. Gorlick*, 396 F.2d 1012 (9th Cir. 1969), *Lessig v. Tidewater Oil Co.*, 327 F.2d 459 (9th Cir. 1964) and *Atlantic City Electric Company v. General Electric Company*, 226 F.Supp. 59 (S.D.N.Y. 1964), *aff'd per curiam*, 337 F.2d 844 (2d Cir. 1964).

(1) The Overcharge Theory of Damage Has Been Applied by Courts of Appeals

In the above cases the Courts of Appeals recognized that proof of an overcharge resulting from an illegal price is proof of injury and the amount of damages. In their essential nature, they do not vary from *Hanover*

[13] At trial defendants attempted to show certain prevailing royalty percentages of other fast food franchisors without allowing a detailed study of what services franchisees of other systems were in fact getting for such royalties.

Shoe. Even before *Hanover Shoe*, the rule announced in *Hanover* was recognized. *Atlantic City Electric Co. v. General Electric Co.*, *supra*, at 63, 71.

The Court of Appeals for the Ninth Circuit, prior to *Hanover*, came to a similar conclusion in a buyer-seller situation. In *Lessig v. Tidewater Oil Co.*, *supra*, it stated that when a merchant has been required to pay more for goods which he resells, that fact is sufficient to establish, prima facie, that he has been damaged. 327 F.2d at 471.

Where an overcharge to a buyer is the result of price discrimination violative of the Robinson-Patman Act, the rule is the same. *Fowler Mfg. Co. v. Gorlick*, *supra*. There the plaintiff-buyer was automatically entitled to damages in the amount of the overcharge which constitutes "*direct business injury*" the measure of a general damage award. 415 F.2d at 1252.

Fowler holds that the measure of overcharge damages ("direct damages") is simply the starting point and that if greater consequential injury is established, it may also be proved and awarded. This holding clearly follows *Hanover*. 392 U.S. at 494.

(2) Courts of Appeals Have Held That Direct Damages May Not Be Diminished

The decision of the Ninth Circuit here conflicts with the above cited cases. In the instant case the Court has ordered a trial for the purpose of placing a value on the defendants' trademark license for the purpose of diminishing plaintiffs' overcharge recovery. Several decisions of Courts of Appeals have denied the right to discovery involving a defense based on a reduction of plaintiffs' damages.

In *Atlantic City Electric Co. v. General Electric Co.*, *supra*, at 70, the passing-on defense was rejected because

of defendants' argument that it would result in a windfall. The Court held that if there is to be a windfall in any case, it is plaintiffs, and not defendants, who should receive it. See also *Commonwealth Edison Co. v. Allis-Chalmers Mfg. Co., supra,* at 208.

The Ninth Circuit in *Fowler* specifically held that evidence of benefits realized in plaintiffs' over-all relationship to defendants was inadmissible. 412 F.2d at 1254. This holding in *Fowler* simply means that the price discriminator may not reduce "direct damages" by searching its entire relationship with the plaintiff buyer to ascertain if such buyer has received something of value from him for less than such consideration and then claim on offset for it.

Thus the Courts of Appeals and this Court in *Hanover Shoe* have not permitted diminution of overcharge or direct damages by considerations extrinsic to the proof involved in the question: What would the illegally priced product otherwise have cost?

(C) CONFLICTS WITH THE LEAR CASE

The decision of the Ninth Circuit in the instant case conflicts with the decision of this Court in *Lear*. The Court of Appeals did not consider or discuss *Lear* and the Ninth Circuit holding is clearly contra to the principle enunciated in *Lear* in that it permits, in effect, the recovery by defendants of trademark royalties despite the court's holding that the registered trademarks had been used to violate the antitrust laws.

The instant case involves the licensing of a franchise system operating under various trademarks. By passage of the Lanham Trademark Act, 15 U.S.C. § 1051, et seq., Congress has provided that registration under 15 U.S.C. § 1065 furnishes conclusive evidence of the registrant's

exclusive right to use trademarks in connection with foods and services provided thereunder. Although the Lanham Act manifests a strong policy of trademark protection, Congress has clearly provided that trademarks may not be used to violate the antitrust laws. (15 U.S.C. § 1115 (b)(7))

Persons, who are licensors of statutorily protected property such as patented inventions or copyrighted publications, may neither demand payment of stated royalties nor assert the defense of patent or copyright protection where their use of a patent or copyright is in violation of the antitrust laws.

Those to whom the trademark laws extend the statutory benefit of a presumption of exclusiveness are in no different position than holders of patents and copyrights. In fact, as shown above, the statutes place special and express limitations upon them with respect to the use of such rights to restrain trade. Thus, an additional reason for reversing the ruling of the Court of Appeals is the fact that all evidence of reasonable value of the trademark license should be excluded because the trademark was used illegally. The Ninth Circuit has held, in essence, that the provisions of the franchise contract controls the measure of damages; that because the plaintiffs accepted the benefits which defendants' system offered in the same contract which contains the unlawful obligations, plaintiffs should be made to pay for such benefits as if the contract had been lawful and fully performed. That position disregards the restrictions on private trademark licensing contract rights imposed by Congress and as embodied in the antitrust laws.

The Supreme Court in *Lear* held that the doctrine estopping a patent licensee to challenge the patent's

validity violated federal policy and that upon proof of the patent's invalidity the licensee could avoid payment of contractual royalty obligations. Allowing those most likely to enforce overriding federal policies, despite contractual and estoppel laws was the basis of the *Lear* decision. 395 U.S. at 671, 673.

If defendants were to sue class members for unpaid license fees under license agreements which contained express license fees and if the agreements also contained unlawful tie-ins involving the trademarks, defendants could not recover under *Lear*. If an express license fee cannot be collected, it is impossible to see how defendant can, as a defense in an antitrust suit, invent a royalty, assign a value to it and then collect it by way of setoff against overcharge damages. Certainly the *Lear* principle, when considered together with the policy of permitting plaintiffs in antitrust cases to recover damages, is a most powerful argument for disallowing any offset based on a suppositious value or royalty arising from defendants' trademark license.

(D) and (E) IF THE PRINCIPLES STATED IN HANOVER AND LEAR ARE INAPPLICABLE, THIS CASE THEN RAISES IMPORTANT AND UNSETTLED QUESTIONS CONCERNING OVERCHARGE DAMAGES AND SETOFFS AGAINST THEM

In sections (A), (B) and (C), this Petition has discussed the applicability of *Hanover* and *Lear* and other Supreme Court and Courts of Appeals cases to questions raised in the case at bar. If this Court finds that the opinion of the Court of Appeals for the Ninth Circuit is not in conflict with those decisions, plaintiffs nonetheless submit that such questions are of fundamental importance, having significance on a policy level; that they are unsettled and should be settled by this Court.

The District Court's decision in this case, upholding plaintiffs has created an uncertainty which, unless addressed by this Court, may give rise to discouragement in an important segment of antitrust enforcement.

(F) CONFLICTS WITH CALIFORNIA EVIDENCE CODE §622. (ESTOPPEL BY CONTRACT)

The decision of the Ninth Circuit erroneously fails to apply the legal doctrine of estoppel by contract.

The Ninth Circuit's ruling will permit defendants to attempt a restructure of the franchise agreement for the specific purpose of eradicating the injury which has occurred. This runs directly counter to the rules of estoppel. It is undisputed that defendants selected the language of and printed the contracts and promotional literature.[14] It is also undisputed that since 1963 the franchise agreements have each contained an acknowledgment that "no franchise fee"[15] or "no franchise fee or other such fee"[16] has been required.

In promotional literature used to induce class members to enter into franchise agreements, defendants represented that Chicken Delight charged no franchise fee for the use of the trademarks, trade name and system, that the license was continually available without cost, that the required packaging and mixes were competitively priced, that the required equipment prices included only a small profit and that franchisees "pay nothing for the privilege of using Chicken Delight's established name and successful methods."[17] Defendants produced no literature used in selling franchises which negated any of these representa-

[14]Admission, R.T. 1528:20.

[15]See e.g., para. 20 of Plaintiffs' Ex. 1Q, 1R and 1T through 1W.

[16]See e.g., para. 20 of Plaintiffs' Ex. 1X through 1AN.

[17]See e.g., Plaintiffs' Exs. 28N, U, C; AK, I, G, O, AM, and AN.

tions. They have not denied this was a highly promoted feature of their franchise sales program. This feature was placed before prospective franchisees to induce the signing of franchise agreements. Faced with the present law suit, defendants now say, in effect, that there was in fact an amount equivalent to a franchise fee buried and unidentified in the price of the tied products.

As pointed out above, great uncertainty and unresolved speculation as to the value, if any, of the franchise license has resulted. This uncertainty was created by defendants and they must bear the impact. More important, on the point of estoppel, however, is the fact that the law will not now permit defendants to change their system and rescind their sales methods on the ground that plaintiffs might be unjustly enriched.

The doctrine of estoppel by contract is one of general application in the United States and requires no evidence of reliance, since it is based not strictly in representations but contract. The California Evidence Code provides that "the facts recited in a written instrument are conclusively presumed to be true as between the parties thereto. . . ." Calif. Evid. Code § 622. This rule is known as the doctrine of estoppel by contract. *Palermo v. Pylie*, 111 Cal.App.2d 350, 354 (1952). The California Supreme Court has held that a party who drafted the contract "can scarcely be heard to question the plain and obvious meaning of the language which he thus advisedly employed." *Boyd v. Liefer*, 144 Cal. 336, 338 (1904).

The rule of estoppel should have been applied in this case by the Court of Appeals, as it was applied by the District Court.

(G) and (H) PRESENTS A CONTROLLING QUESTION OF LAW AS TO WHICH THERE IS SUBSTANTIAL GROUND FOR DISAGREEMENT AND CONSIDERATION BY THE SUPREME COURT MAY MATERIALLY ADVANCE THE ULTIMATE TERMINATION OF THIS LITIGATION

Both the District Court and the Court of Appeals certified the damage issue discussed in this Petition under 28 U.S.C. § 1292(b) on the basis that there existed a controlling question of law as to which there is substantial ground for disagreement, and that immediate appeal may materially advance the ultimate termination of this litigation. Although this Court is not bound by the provisions of 28 U.S.C. § 1292(b) nor by the actions of lower courts in applying it, plaintiffs respectfully submit that the damage issue discussed is indeed a controlling question in this case. We believe that the lower courts felt strongly that the establishment of the rulings as either correct or incorrect would materially advance the cause.

The question of damages is controlling and centers on the premise that in further trial of this case, proof of damages will constitute a contested issue only of what the price of the commodities might have been had plaintiffs been permitted to purchase them as free traders. Should the Ninth Circuit ruling be undisturbed at this time, the trial on the damage issue will truly proliferate into an outpouring of proffered evidence from both sides seeking to place value on things outside the tied products during various periods of time, in order to destroy on the one hand or to preserve on the other hand the overcharge damages. We have already pointed out the vagueness, uncertainty, speculative nature of such proof and the adverse effect on antitrust enforcement involved in such an undertaking.

Should this case be tried now, without guidance from this Court, the issue of damages will be legally complex, giving rise to many opportunities for legal error in rulings upon evidence. These rulings would result inevitably in an appeal by the dissatisfied side and would have to be supported by a complete trial record. Should the Court at that future time consider the question now presented to be of sufficient importance on its merits to justify review, then, we submit, review is now justified even though at an interlocutory state.[18] Should this Court reinstate the District Court's judgment, then the resulting trial will be clearly defined.

Even if the Court of Appeals is correct in its opinion that a triable issue exists respecting whether franchisees "understood that the tying items were to be given free of charge," this Court's ruling on the issue presented in this Petition is still necessary for the reasons given above in this section. Should it be found on remand that the franchisees did not understand that they were paying for the license, but for commodities only, the issue of overcharge damages and admissibility of evidence in diminution of such damages would still remain. This is so because the opinion of the Court of Appeals tells us only that the value of the tying item must be established at trial: Presumably it must be established even if the trier of fact determines that the franchisees had not agreed or understood that they were paying anything for the license. The trial would continue on into the vague and complex issue of whether the franchisees would have become franchisees

[18]The only other issues to be tried are the *amount* of damages, once the fact of injury is established, and the liability of defendant Consolidated Foods Corporation, the parent of the Chicken Delight companies. These are issues which seem hardly likely to induce this Court's review, and even if they should, they will involve wholly different principles of law.

in the first place if a fee were revealed and a valuation stated.

For these reasons, plaintiffs argue that the questions of law presented are controlling, there obviously is disagreement as to their resolution, and their resolution now by this Court will materially advance this case.

CONCLUSION

For reasons stated herein, a writ of certiorari should issue to review Section III of the judgment and opinion of the Ninth Circuit.

Dated, San Francisco, California,
December 20, 1971.

Respectfully submitted,

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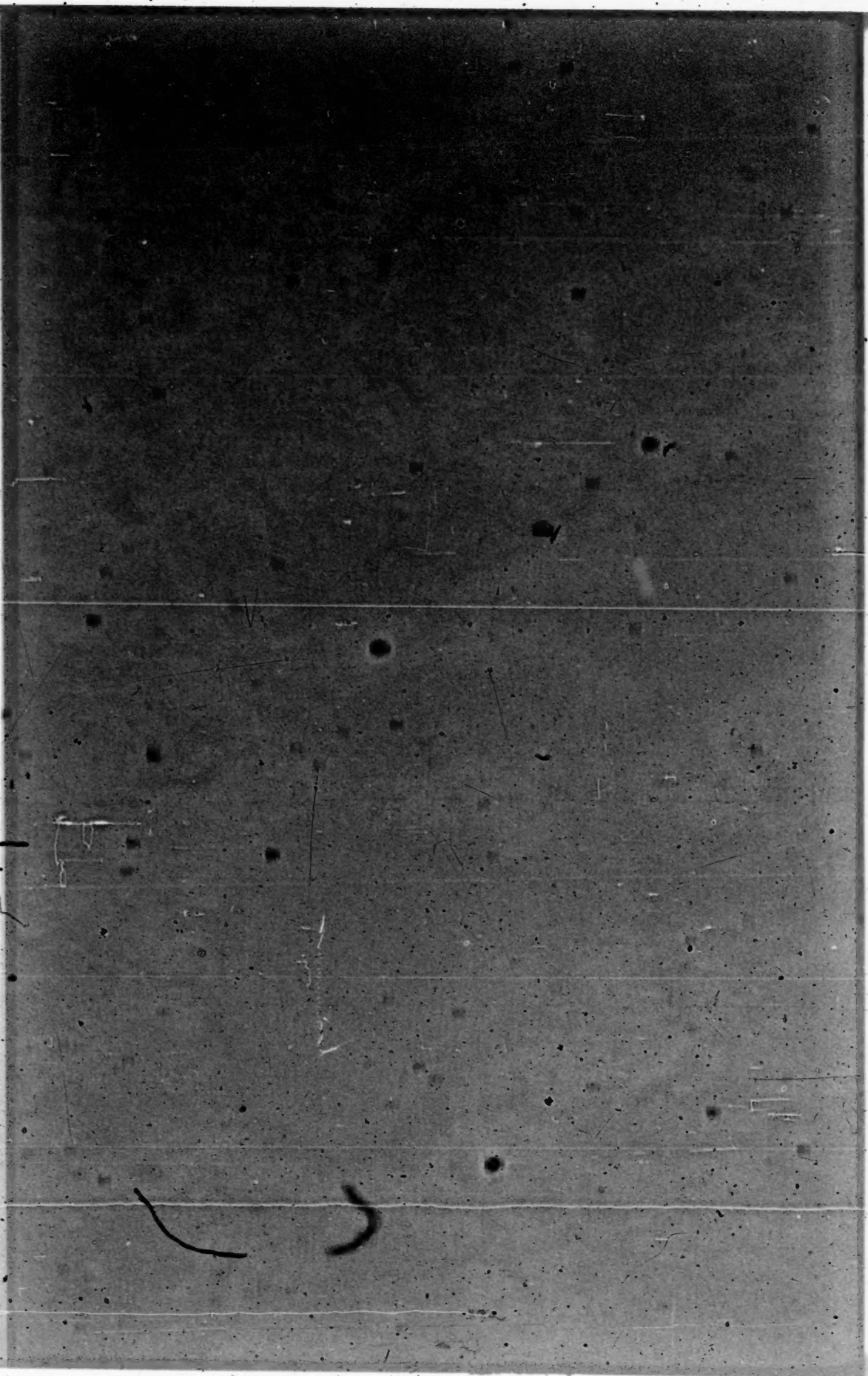
(Appendices Follow)



Appendix A

In the United States Court of Appeals
for the Ninth Circuit

Harvey Siegel and Elaine Siegel, husband and wife, David Witt, Robert Van Schaick, Ralph R. Andre and Ruth L. Andre, husband and wife, and Richard Zachary, Plaintiffs-Appellees, vs. Chicken Delight, Inc., Chicken Delight of California, Inc., and Consolidated Foods Corp., Defendants-Appellants.	No. 25,903
Chicken Delight, Inc., et al., Appellants-Petitioners; vs. George B. Harris, District Judge, Respondent, Harvey and Elaine Siegel, et al., Real Parties in Interest.	No. 26,860.

[September 9, 1971]

On Appeal from the United States District Court for the Northern District of California

Before: MADDEN, Judge of the United States Court of Claims, and MERRILL and HUFSTEDLER, Circuit Judges.

MERRILL, Circuit Judge:

This antitrust suit is a class action in which certain franchisees of Chicken Delight seek treble damages for

injuries allegedly resulting from illegal restraints imposed by Chicken Delight's standard form franchise agreements. The restraints in question are Chicken Delight's contractual requirements that franchisees purchase certain essential cooking equipment, dry-mix food items, and trade-mark bearing packaging exclusively from Chicken Delight as a condition of obtaining a Chicken Delight trade-mark license. These requirements are asserted to constitute a tying arrangement, unlawful per se under § 1 of the Sherman Act, 15 U.S.C. § 1.

After five weeks of trial to a jury in the District Court, plaintiffs moved for a directed verdict, requesting the court to rule upon four propositions of law: (1) That the contractual requirements constituted a tying arrangement as a matter of law; (2) that the alleged tying products—the Chicken Delight name, symbols, and system of operation—possessed sufficient economic power to condemn the tying arrangement as a matter of law; (3) that the tying arrangement had not, as a matter of law, been justified; and (4) that, as a matter of law, plaintiffs as a class had been injured by the arrangement.

The court ruled in favor of plaintiffs on all issues except part of the justification defense, which it submitted to the jury. On the questions submitted to it, the jury rendered special verdicts in favor of plaintiffs. The opinion of the District Court and the special verdicts appear at 311 F.Supp. 847 et seq. Pursuant to an order of April 27, 1970, Chicken Delight has taken this interlocutory appeal from the trial court rulings and verdicts.

I. FACTUAL BACKGROUND

Over its eighteen years existence, Chicken Delight has licensed several hundred franchisees to operate home delivery and pick-up food stores. It charged its franchisees no franchise fees or royalties. Instead, in exchange for the license granting the franchisees the right to assume its identity and adopt its business methods and to prepare and market certain food products under its trade-mark, Chicken Delight required its franchisees to purchase a specified number of cookers and fryers and to purchase certain packaging supplies and mixes exclusively from Chicken Delight.[1] The prices fixed for these purchases were higher than, and included a percentage markup which exceeded that of, comparable products sold by competing suppliers.

II. THE EXISTENCE OF AN UNLAWFUL TYING ARRANGEMENT

In order to establish that there exists an unlawful tying arrangement plaintiffs must demonstrate: *First*, that the scheme in question involves two distinct items and provides that one (the tying product) may not be obtained unless the other (the tied product) is also purchased. *Times-Picayune Publishing Co. v. United States*, 345 U.S. 594, 613-14 (1953). *Second*, that the tying product pos-

[1]From the organization's beginning in 1952 until 1959, the franchisees were required to purchase, in addition to the cookers and fryers, the batter mix and two types of packaging. Additional packaging items were added in 1959 and in 1961; and in 1963, the beginning of the period in question in this suit, barbecue rib seasoning mix which had previously been specified to and made by the franchisees became a required item. More packaging items were added in 1963 and 1964.

sesses sufficient economic power appreciably to restrain competition in the tied product market. *Northern Pacific R. Co. v. United States*, 356 U.S. 1, 6 (1958). *Third*, that a "not insubstantial" amount of commerce is affected by the arrangement. *International Salt Co. v. United States*, 332 U.S. 392 (1947). Chicken Delight concedes that the third requirement has been satisfied. It disputes the existence of the first two. Further it asserts that, even if plaintiffs should prevail with respect to the first two requirements, there is a *fourth* issue: whether there exists a special justification for the particular tying arrangement in question. *United States v. Jerrold Electronics Corp.*, 187 F.Supp. 545 (E.D.Pa. 1960), *aff'd per curiam*, 365 U.S. 567 (1961).

A. *Two Products*

The District Court ruled that the license to use the Chicken Delight name, trade-mark, and method of operations was "a tying item in the traditional sense," 311 F.Supp. at 849, the tied items being the cookers and fryers, packaging products, and mixes.

The court's decision to regard the trade-mark or franchise license as a distinct tying item is not without precedent. In *Susser v. Carvel Corp.*, 332 F.2d 505 (2d Cir. 1964), all three judges regarded as a tying product the trade-mark license to ice cream outlet franchisees, who were required to purchase ice cream, toppings and other supplies from the franchisor. *See also Baker v. Simmons Co.*, 307 F.2d 458, 466-69 (1st Cir. 1962). Nevertheless, Chicken Delight argues that the District Court's conclusion conflicts with the purposes behind the strict rules governing the use of tying arrangements.

The hallmark of a tie-in is that it denies competitors free access to the tied product market, not because the party imposing the arrangement has a superior product in that market, but because of the power or leverage exerted by the tying product. *Northern Pac. R. Co. v. United States, supra.* Rules governing tying arrangements are designed to strike, not at the mere coupling of physically separable objects, but rather at the use of a dominant desired product to compel the purchase of a second, distinct commodity. *Times-Picayune Publishing Co. v. United States, supra,* at 614. In effect, the forced purchase of the second, tied product is a price exacted for the purchase of the dominant, tying product. By shutting competitors out of the tied product market, tying arrangements serve hardly any purpose other than the suppression of competition. *Standard Oil v. United States,* 337 U.S. 292, 305-06 (1949).

Chicken Delight urges us to hold that its trademark and franchise licenses are not items separate and distinct from the packaging, mixes, and equipment, which it says are essential components of the franchise system.[2] To treat the combined sale of all these items as a tie-in for antitrust purposes, Chicken Delight maintains, would be

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[2]Appellant, in urging us not to distinguish between the trademark and the product it represents, relies in part upon Supreme Court language to the effect that there is no property in a trademark except as a right appurtenant to an established business in connection with which the mark is employed. *United Drug Co. v. Rectanus Co.,* 248 U.S. 90, 97 (1918). But the Court did not mean that a mark and the product or business which it identifies are one and the same; it meant simply that, unlike a copyright or a patent, a trade-mark does not confer upon its owner the right to prohibit a competitor's use of the mark unless the owner himself uses the mark in connection with an existing business.

like applying the antitrust rules to the sale of a car with its tires or a left shoe with the right. Therefore, concludes Chicken Delight, the lawfulness of the arrangement should not be measured by the rules governing tie-ins. We disagree.

In determining whether an aggregation of separable items should be regarded as one or more items for tie-in purposes in the normal cases of sales of products the courts must look to the function of the aggregation.[3] Consideration is given to such questions as whether the amalgamation of products resulted in cost savings apart from those reductions in sales expenses and the like normally attendant upon any tie-in, and whether the items are normally sold or used as a unit with fixed proportions.[4]

Where one of the products sold as part of an aggregation is a trade-mark or franchise license, new questions

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[3] *See generally*, McCarthy, "Trademark Franchising and Antitrust: The Trouble with Tie-Ins," 58 Calif.L.Rev. 1085, 1108 (1970); Turner, "The Validity of Tying Arrangements Under the Antitrust Laws," 72 Harv.L.Rev. 50, 67-72 (1958); *cf. Fortner Enterprises v. United States Steel*, 394 U.S. 495, 506-09 (1969).

[4] It should be readily apparent that, measured against these tests, the package sales here in question are quite different from the sale of an automobile and its tires or a left shoe and the right. In particular, there are several factors in this case which other courts have deemed sufficient to find a tie-in. Undisputed testimony at trial established that other franchisors in fast food businesses similar to that of Chicken Delight sold their licenses separate from the essential supplies. The various supplies sold here were sold individually and in differing amounts, rather than in a preassembled package, and the franchisees were billed accordingly. At no time were the franchisees required to purchase all their various supplies from Chicken Delight. Chicken Delight did not itself manufacture the tied items. *See Associated Press v. Taft-Ingalls Corp.*, 340 F.2d 753, 764 (6th Cir. 1965); *United States v. Jerrold Electronics Corp.*, *supra*, at 559.

are injected. In determining whether the license and the remaining ("tied") items in the aggregation are to be regarded as distinct items which can be traded in distinct markets consideration must be given to the function of trade-marks.

The historical conception of a trade-mark as a strict emblem of source of the product to which it attaches has largely been abandoned. The burgeoning business of franchising has made trade-mark licensing a widespread commercial practice and has resulted in the development of a new rationale for trade-marks as representations of product quality.[5] This is particularly true in the case of a franchise system set up not to distribute the trade-marked goods of the franchisor, but, as here, to conduct a certain business under a common trade-mark or trade name.[6] Under such a type of franchise, the trade-mark simply reflects the goodwill and quality standards of the enterprise which it identifies. As long as the system of operation of the franchisees lives up to those quality standards and remains as represented by the mark so that the public is not misled, neither the protection afforded the trade-mark by law nor the value of the trade-mark to the licensee depends upon the source of the components.

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[5] *See generally*, McCarthy, *supra*, note 3 at 1112-13; Note, "Quality Control and the Antitrust Laws in Trade-mark Licensing," 72 Yale L.J. 1171 (1963).

[6] *See generally*, Baker, "Another Look at Franchise Tie-ins after Texaco and Fortner," 14 Antitrust Bull. 767 (1969); FTC, "Report of Ad Hoc Committee on Franchising," 18-25 (June 2, 1969); Le Blanc, "Antitrust Ramifications of Trademark Licensing and Franchising," 53 Trademark Rep. 519, 537 (1963).

This being so, it is apparent that the goodwill of the Chicken Delight trade-mark does not attach to the multitude of separate articles used in the operation of the licensed system or in the production of its end product. It is not what is used, but how it is used and what results that have given the system and its end product their entitlement to trade-mark protection. It is to the system and the end product that the public looks with the confidence that established goodwill has created.

Thus, sale of a franchise license, with the attendant rights to operate a business in the prescribed manner and to benefit from the goodwill of the trade name, in no way requires the forced sale by the franchisor of some or all of the component articles. Just as the quality of a copyrighted creation cannot by a tie-in be appropriated by a creation to which the copyright does not relate, *United States v. Paramount Pictures, Inc.*, 334 U.S. 131, 158 (1948), so here attempts by tie-in to extend the trade-mark protection to common articles (which the public does not and has no reason to connect with the trade-mark) simply because they are said to be essential to production of that which is the subject of the trade-mark, cannot escape antitrust scrutiny.

Chicken Delight's assertions that only a few essential items were involved in the arrangement does not give us cause to reach a different conclusion. The relevant question is not whether the items are essential to the franchise, but whether it is essential to the franchise that the items be purchased from Chicken Delight. This raises not the issue of whether there is a tie-in but rather the issue of whether the tie-in is justifiable, a subject to be discussed below.

We conclude that the District Court was not in error in ruling as matter of law that the arrangement involved distinct tying and tied products.

B. *Economic Power*

Under the per se theory of illegality, plaintiffs are required to establish not only the existence of a tying arrangement but also that the tying product possesses sufficient economic power to appreciably restrain free competition in the tied product markets. *Northern Pacific R. Co. v. United States, supra.*

Chicken Delight points out that while it was an early pioneer in the fast food franchising field, the record establishes that there has recently been a dramatic expansion in this area, with the advent of numerous firms, including many chicken franchising systems, all competing vigorously with each other. Under the circumstances, it contends that the existence of the requisite market dominance remained a jury question.

The District Court ruled, however, that Chicken Delight's unique registered trade-mark, in combination with its demonstrated power to impose a tie-in, established as matter of law the existence of sufficient market power to bring the case within the Sherman Act.

We agree. In *Fortner Enterprises v. United States Steel*, 394 U.S. 495, 502-03 (1969), it is stated:

> "The standard of 'sufficient economic power' does not, as the District Court held, require that the defendant have a monopoly or even a dominant position throughout the market for the tying product. Our tie-in cases have made unmistakeably clear that the economic power over the tying product can be suf-

> ficient even though the power falls far short of dominance and even though the power exists only with respect to some of the buyers in the market."

Later, at page 584, it is stated:

> "Accordingly, the proper focus of concern is whether the seller has the power to raise prices, or impose other burdensome terms such as a tie-in, with respect to any appreciable number of buyers within the market."

In *United States v. Loew's, Inc.*, 371 U.S. 38, 45 (1962), it is stated:

> "Even absent a showing of market dominance, the crucial economic power may be inferred from the tying product's desirability to consumers or from uniqueness in its attributes."

It can hardly be denied that the Chicken Delight trademark is distinctive; that it possesses goodwill and public acceptance unique to it and not enjoyed by other fast-food chains.

It is now clear that sufficient economic power is to be presumed where the tying product is patented or copyrighted. *United States v. Loew's, Inc., supra; United States v. Paramount Pictures, Inc., supra; International Salt Co. v. United States, supra.*

In *Fortner, supra,* at page 505, note 2, it is stated:

> "Uniqueness confers economic power only when other competitors are in some way prevented from offering the distinctive product themselves. Such barriers may be legal, as in the case of patented and copyrighted products, *e.g., International Salt; Loew's*, or physical, as when the product is land, *e.g., Northern Pacific.*"

Just as the patent or copyright forecloses competitors from offering the distinctive product on the market, so the registered trade-mark presents a legal barrier against competition. It is not the nature of the public interest that has caused the legal barrier to be erected that is the basis for the presumption, but the fact that such a barrier does exist. Accordingly we see no reason why the presumption that exists in the case of the patent and copyright does not equally apply to the trade-mark.[7]

Thus we conclude that the District Court did not err in ruling as matter of law that the tying product—the license to use the Chicken Delight trade-mark—possessed sufficient market power to bring the case within the Sherman Act.

C. *Justification*

Chicken Delight maintains that, even if its contractual arrangements are held to constitute a tying arrangement, it was not an unreasonable restraint under the Sherman Act. Three different bases for justification are urged.

First, Chicken Delight contends that the arrangement was a reasonable device for measuring and collecting revenue. There is no authority for justifying a tying arrangement on this ground. Unquestionably, there exist feasible alternative methods of compensation for the franchise licenses, including royalties based on sales vol-

[7] Our conclusion conflicts with that of the majority of the *Susser* case, *supra*, at 518-21, which, after a careful review of the facts in that case, held that sufficient economic power had not been demonstrated. But the *Susser* court understood the economic power test to require a showing of "market dominance." We think that interpretation has since been rejected by the Supreme Court in *Fortner Enterprises v. United States Steel, supra.*

ume or fees computed per unit of time, which would neither involve tie-ins nor have undesirable anticompetitive consequences.[8]

Second, Chicken Delight advances as justification the fact that when it first entered the fast food field in 1952 it was a new business and was then entitled to the protection afforded by *United States v. Jerrold Electronics Corp., supra*, 187 F.Supp. 545. As to the period here involved—1963 to 1970—it contends that transition to a different arrangement would be difficult if not economically impossible.

We find no merit in this contention. Whatever claim Chicken Delight might have had to a new business defense in 1952—a question we need not decide—the defense cannot apply to the 1963-70 period. To accept Chicken Delight's argument would convert the new business justification into a perpetual license to operate in restraint of trade. *See* Id. 187 F.Supp. at 558, 561.

The third justification Chicken Delight offers is the "marketing identity" purpose, the franchisor's preservation of the distinctiveness, uniformity and quality of its product.

In the case of a trade-mark this purpose cannot be lightly dismissed. Not only protection of the franchisor's goodwill is involved. The licensor owes an affirmative duty to the public to assure that in the hands of his licensee the trade-mark continues to represent that which it purports to represent. For a licensor, through relaxation of

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[8]It bears noting that Chicken Delight's competitors in the fast food franchising business did not find it necessary to use tie-ins.

quality control, to permit inferior products to be presented to the public under his licensed mark might well constitute a misuse of the mark. 15 U.S.C. §§1055, 1127; *See* Note, "Quality Control and the Antitrust Laws in Trade-mark Licensing," *supra*.

However, to recognize that such a duty exists is not to say that every means of meeting it is justified. Restraint of trade can be justified only in the absence of less restrictive alternatives. In cases such as this, where the alternative of specification is available,[9] the language used in *Standard Oil Co. v. United States, supra*, 337 U.S. at 306, in our view states the proper test, applicable in the case of trade-marks as well as in other cases:

> "* * * the protection of the good will of the manufacturer of the tying device—fails in the usual situation because specification of the type and quality of the product to be used in connection with the tying device is protection enough. * * * The only situation, indeed, in which the protection of good will may necessitate the use of tying clauses is where specifications for a substitute would be so detailed that they could not practicably be supplied." *Accord, International Machines Corp. v. United States*, 298 U.S. 131, 133-40 (1936).

The District Court found factual issues to exist as to whether effective quality control could be achieved by specification in the case of the cooking machinery and the dip and spice mixes. These questions were given to the

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[9]There may, of course, be cases where some extraordinary condition forecloses specification, *e. g.*, where it would divulge a trade secret.

jury under instructions; and the jury, in response to special interrogatories, found against Chicken Delight.[10]

As to the paper packaging, the court ruled as matter of law that no justification existed. It stated, 311 F.Supp. at page 851:

> "Defendants' showing on paper packaging is nothing more than a recitation of the need for distinctive packaging to be used uniformly by all franchisees in identifying the hot foods. This was not contested. However, the admissions in evidence clearly demonstrate that the tied packaging was easily specifiable. In fact, the only specifications required were printing and color. Moreover, defendants have admitted that any competent manufacturer of like products could consistently and satisfactorily manufacture the packaging products if defendants furnished specifications. Those suppliers could have sold to the franchisees through normal channels of distribution."

We agree. One cannot immunize a tie-in from the anti-trust laws by simply stamping a trade-mark symbol on the tied product—at least where the tied product is not itself the product represented by the mark.

We conclude that the District Court was not in error in holding as matter of law (and upon the limited jury verdict) that Chicken Delight's contractual requirements constituted a tying arrangement in violation of §1 of the Sherman Act. Upon this aspect of the case, judgment is affirmed.

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[10]Chicken Delight asserts error in the instructions given. In our view, however, the essential question—whether specification under the circumstances was practicable—was properly presented to the jury.

III. THE MEASURE OF DAMAGES

Section 4 of the Clayton Act, 15 U.S.C. §15, provides that anyone "injured in his business or property" by reason of a violation of the antitrust laws "shall recover threefold the damages by him sustained." In determining what damages plaintiffs incurred, the District Court noted that the contracts and all written representations by Chicken Delight stated that there were no franchise fees or royalty payments and from that fact concluded that the entire price paid by the franchisees was allocable to the tied items. Thus, the court ruled that the fact of damages equal in amount to the overcharge on the tied items (the amount by which the contract price exceeded the market price for comparable items) was established as a matter of law.

It stated, 311 F.Supp. at page 852:

> "On the issue of fact of damage, this Court has determined as a matter of law that the fact of damage is established. Defense counsel persists in his argument that the upcharge in the tied products should be offset by a 'reasonable value' assessed for the Chicken Delight license. * * * This Court will not attempt to restructure the system of defendants into one which is legally constituted and then allow an offset for imaginary or suppositious royalty fees. Such would be directly contrary to the avowed policy of the Sherman Act."

In this we feel the court erred.

It is by no means clear that any of the parties to the tying arrangements understood that the tying items were to be given free of charge. Indeed, the more reasonable reading of the contracts and of Chicken Delight's repre-

sentations is that they stated simply that the contract prices for the tied items were to be the full compensation asked by Chicken Delight for both those items and the franchise licenses.

By its own terms, Clayton Act recovery is available only where actual injury has been suffered. *Winckler & Smith Citrus Products Co. v. Sunkist Growers, Inc.*, 346 F.2d 1012, 1014 (9th Cir. 1965). The question here is whether the plaintiffs have suffered injury by virtue of the unlawful arrangement to which they were subjected. That arrangement of necessity involved both tying and tied products. To ascertain whether an unlawful arrangement for the sale of products has caused injury to the purchaser, the cost or value of the products involved, free from the unlawful arrangement, must first be ascertained. *Cf., Perma Life Mufflers, Inc. v. Int'l Parts Corp.*, 392 U.S. 134, 140 (1968).

Appellants contend that since the value of the tying items must be taken into account, as matter of law appellees have suffered no injury. They reason that the value of the tying items has been conclusively evidenced by what the franchisees were willing to pay (in overcharges for the tied items) in order to get them.

We cannot agree.[11] The franchisees' apparent willingness to pay the ultimate cost of the arrangement is clouded

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[11] Were appellant's position correct, there could never be treble damage recovery by tie-in purchasers, since damage could never be demonstrated. This broad principle has already been rejected by this court, which has recognized the right of purchasers under illegal tying arrangements to collect treble damages for overcharges. *See Lessig v. Tidewater Oil Co.*, 327 F.2d 459, 471-72 (9th Cir. 1964); *see also Osborn v. Sinclair Refining Company*, 324 F.2d 566, 570 (4th Cir. 1963).

by the fact that they may well have been unaware of what that cost would come to in practice. Had the full amount of the over-charge on the tied items been openly specified as the cost of the tying items, agreement might not have been forthcoming. We can hardly rule as matter of law that it would have been.

We conclude that neither the existence of damage nor its lack of existence has been established as matter of law; that factual issues remain as to the value of both tying and tied products, free from the tying arrangement; that remand for the resolution of these issues is necessary.

Upon the issue of damages, judgment is reversed and the case remanded for limited new trial.

IV. THE PETITION FOR MANDAMUS

Chicken Delight moved in the District Court for a partial summary judgment granting a declaration that, in the event its franchise arrangements are found to be unlawful, they are voidable and terminable by Chicken Delight. The court denied both that motion and Chicken Delight's request for an order authorizing an interlocutory appeal of the question. Chicken Delight now petitions this court for a writ of mandamus commanding the District Court to declare the franchise contracts terminable at Chicken Delight's option.

The theory advanced by Chicken Delight is that, if the franchise contracts are unlawful and thus not enforceable against the franchisees, there would be a failure of mutuality and consideration which should preclude enforcement by the franchisees. In more practical terms, Chicken Delight's concern is that the District Court's

decision might entitle the plaintiffs to a royalty-free franchise license in the future.

Mandamus is an extraordinary remedy, the issuance of which is discretionary. *See, e.g., Will v. United States*, 389 U.S. 90, 95 (1967); *Whitehouse v. Ill. Cent.R. Co.*, 349 U.S. 366, 373 (1955). Without reaching the question of whether the illegal franchise arrangements should be terminable at Chicken Delight's option, we decline to issue the writ at this time.

Both the appeal and the petition are interlocutory. The issues involved may become more clear after the case is completely settled in the District Court. (It may even be that Chicken Delight will not desire review of the District Court's disposition at that point.) Since the District Court's theory of damages and its refusal to allocate any of the purchase price to the tying product has been reversed, the factual background of the issue raised in the petition is already quite different from that anticipated when the petition was filed. Chicken Delight's interests can be adequately protected by an appeal at the end of the District Court proceedings.

Writ denied.

No costs are awarded.

Appendix B

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United States District Court
Northern District of California

Civil No. 46271—GBH

Harvey Siegel and Elaine Siegel, husband and wife, et al.,
Plaintiffs,

vs.

Chicken Delight, Inc., et al.,
Defendants,

Vance E. Shepherd and Ben Zachary, a partnership, et al.,
Intervening Plaintiffs,

Chicken Delight, Inc., et al.,
Cross-Claimants,

vs.

Harvey Siegel, et al.,
Cross-Defendants.

MEMORANDUM OPINION AND ORDER ON MOTION FOR DIRECTED VERDICT

This matter is before the Court on plaintiffs' motion for a directed verdict following the close of defendants' case and the submission of the evidence. The Court being fully advised and having considered all of the testimony and evidence, including the numerous and lengthy oral arguments of counsel, all of the briefs, depositions and affidavits, has now reached the following decision and opinion.*

The issues, simply stated, are: (1) Are the defendants' standard contract and practices requiring the purchase of various packaging items, cookers and fryers, and certain mix preparations for food a tying agreement in violation of Section 1 of the Sherman Act? (2) If so, have the plaintiffs been injured by the said violation?

Tying arrangements, by definition agreements in which the seller offers two separate items for sale but will not sell the first item (or tying item) unless the buyer agrees to purchase the second item (or tied item), have uniformly been treated harshly by the United States Supreme Court. *International Business Machines v. United States,* 298 U.S. 131 (1936); *International Salt Co. v. United States,* 332 U.S. 392 (1947); *Northern Pacific Ry. Co. v. United States,* 356 U.S. 1 (1958); *United States v. Loews, Inc.,* 371 U.S. 38 (1962); *Hanover Shoe Co. v. United Shoe Machinery Corp.,* 392 U.S. 481 (1968); *Fortner Enterprises v. U.S. Steel,* 394 U.S. 495 (1969). The

*Earlier opinions regarding the propriety of the class action: *Siegel v. Chicken Delight, Inc.,* 271 F.Supp. 722 (N.D. Cal. 1967); *Chicken Delight, Inc., v. Harris, District Judge,* 412 F.2d 830 (9th Cir. 1969).

instant case is conceptually an illustration of the classical tie. Defense counsel argues that this case involves a single product, "the Chicken Delight System," thus attempting to come within the single product ruling of *Times-Picayune Publishing Co. v. United States*, 345 U.S. 594 (1953), wherein the traditional statement of the *per se* rule against tying arrangements was first enunciated by Mr. Justice Clark.

However, the case of *Susser v. Carvel Corp.*, 332 F.2d 505 (2nd Cir., 1964), which is factually most akin to this litigation, clearly holds contra. Both the majority and the dissent in Susser recognize that a trademark license which is granted on the condition that the licensee purchase other products can clearly be a "tying item" within the meaning of the above cases. This Court is in full accord with such a finding. In the economic context of present franchising trends, it is clear that a franchise license is marketable separate and apart from the various products which the franchisees are required to purchase from and through the franchisor.

In the case at bar, it is manifest that the license to use the Chicken Delight name, trademark and method of operations was a tying item in the traditional sense. The tied items were the required paper packaging products, the cookers and fryers and the food preparation mixes. Thus, for purposes of the Sherman Act, this Court finds as a matter of law that a tying agreement exists.

With respect to the essential ingredient of market control, the cases dictate but one conclusion—that as a matter of law Chicken Delight's admittedly unique, registered trademark combined with its power to impose the tie-in

demonstrates the existence of sufficient market power to bring the case within the Sherman Act. A review of *Northern Pacific Ry. Co. v. United States,* 356 U.S. 1 (1957); *United States v. Loews, Inc.,* 371 U.S. 38 (1962); *Fortner Enterprises v. U.S. Steel,* 394 U.S. 495 (1969) and *Advanced Business Systems & Supply Co. v. SMC Corp.,* 415 F.2d 55 (4th Cir., 1969) demands this result. To enmesh the jury in the rubric of market power in light of the clear guidelines laid down in the above cases should be unnecessary. This Court clearly may and does rule upon this question as a matter of law.

The *Northern Pacific Ry.* case gave the first indication that market power is evidence by the fact of the tie-in. "*The very existence of this host of tying arrangements is itself compelling evidence of the defendant's great power* . . ." 356 U.S. at p. 7-8.

The *Loews* case likewise strongly indicated that market power can be inferred from the existence of the tie-in.

> They (tying agreements) are an object of antitrust concern for two reasons—they may force buyers into giving up the purchase of substitutes for the tied product . . . and they may destroy the free access of competing suppliers of the tied product to the consuming market . . . A tie-in contract may have one or both of these undesirable effects when the seller, by virtue of his position in the market for the tying product, has economic leverage sufficient to induce his customers to take the tied product along with the tying item . . . Even absent a showing of market dominance, the crucial economic power may be inferred from the tying product's desirability to consumers or from uniqueness in its attributes. (citations omitted). 371 U.S. at p. 44-45.

In a footnote to the above quote, Mr. Justice Goldberg stated that "it should seldom be necessary in a tie-in sale case to embark upon a full-scale factual inquiry into the scope of the relevant market for the tying product . . ." Where the tying item is the subject of a patent or a copyright, sufficient market power is presumed.

In *Fortner*, Mr. Justice Black further narrowed the scope of inquiry into market power. "Accordingly, the proper focus of (market power) concern is whether the seller has the power to raise prices, or impose other burdensome terms such as a tie-in, with respect to any appreciable number of buyers within the market." 394 U.S. at p. 504.

Subsequently, citing *Fortner*, the Fourth Circuit in *Advanced Business Sytems* held that "a seller's successful imposition of a tying arrangement on a substantial amount of commerce may be taken as proof of his economic power over the tying product." 415 F.2d at p. 62. Although this statement was made with regard to a violation of the Clayton Act, this Court is of the opinion that any distinction between the Sherman Act and Clayton Act with regard to the question of market power is wholly artificial. See, *Handler, "Antitrust: 1969,"* 55 Cornell L. Rev. 161, 171 (1970).

For purposes of the Sherman Act, the effect on interstate commerce need merely be said to be "not insubstantial." *International Salt Co. v. United States*, 332 U.S. 392, 396 (1947). This test is fulfilled if the dollar amount is not *de minimis* or not "paltry." *Fortner Enterprises v. United States*, 394 U.S. 495, 501-502 (1969). In the present case (millions of dollars being involved), the dol-

lar amount cannot be said to be *de minimis.* Thus, as a matter of law, this Court finds that the interstate commerce affected is "not insubstantial." A *per se* violation of the Sherman Act is therefore found to exist.

When a *per se* violation of the Sherman Act exists, the areas of justification for a tie-in are indeed narrow. See, Baker, "Another Look at Franchise Tie-ins After *Texaco* and *Fortner,*" 14 Antitrust Bulletin 767, 778 et seq. (1969). In this litigation, defendants propound four so-called justifications for the tie-in of the various required products. They are: (1) Quality control for protection of trademark good will; (2) New business justification; (3) A convenient accounting devie for compensation of the trademark license; and (4) Franchisor's assurance of initial equipment and a continuing source of supply of essential items.

In the factual structure and posture of this case, the Court rules as a matter of law that the latter two asserted jutifications cannot and do not justify so onerous an anti-competitive device as the tie-in agreement herein condemned.

Use of a tie-in cannot be justified as an accounting device for compensation for a trademark license. The defendants cite no relevant authority for such a proposition. In fact, such a justification is contrary to the uncontradicted evidence in this case, which evidence shows that the defendants charged no franchise fee or continuing royalty. Furthermore, an accounting method which specified a percentage of gross from the franchisees is just as convenient and has none of the anti-competitive effects of a tie-in.

Defendants' fourth attempted justification insists that they had a legal duty to assure franchisees of initial equipment and continuing supplies of other essential items. The admissions and the evidence are replete that defendants' alleged obligations could easily have been fulfilled without tying the purchase of those items to a trademark license. Defendants, like most franchisors, could have designated manufacturers and distributors who are available throughout the United States and anxious to do business as those sources of supply. This Court rules as a matter of law that such a justification is not available or defensive to the *per se* tying arrangement in this case.

In *United States v. Jerrold Electronics Corp.*, 187 F. Supp. 559 (E.D.Pa., 1960), aff'd per curiam 365 U.S. 567 (1961), the Supreme Court recognized the so-called new business justification. In *Jerrold* the sole restraint approved by the Court was the tie-in of an engineering service contract for highly complex equipment, during the early stages of a business whose technology was advanced and unproven. As technological knowledge became more widespread and definitive, the Court indicated that the restraint could no longer be justified. This defense can certainly be held, as a matter of law, not to apply to the case at bar. The undisputed facts are that defendants started their business in 1952 and, for the period 1963 through 1969 and into 1970 (the period relevant to this litigation), the purchase requirements, although expanded in the number of products required, prevailed unchanged.

The defendants further assert that the tie-in of the paper products, the dip and spice mixes and the cookers

and fryers can be justified as necessary quality control to protect the good will of their trademark. Heavy reliance is placed upon the opinion of Mr. Justice Friendly in the *Susser* case, supra. The Court agrees that this defense has sufficient vitality, as a factual consideration, to reach the jury as to the dip and spice mixes and as to the cookers and fryers. However, the Court rules as a matter of law that there can be no justification for the tie-in of the paper products.

The guiding language on the issue of quality control justification was stated by Mr. Justice Frankfurter, in *Standard Oil Co. v. United States,* 337 U.S. 293, 305-306 (1948).

> Tying agreements serve hardly any purpose beyond the suppression of competition. The justification most often advanced in their defense—the protection of good will of the manufacturer of the tying device—fails in the usual situation because specification of the type and quality of the product to be used in connection with the tying device is protection enough. If the manufacturer's brand of the tied product is in fact superior to that of competitors, the buyer will presumably choose it anyway. *The only situation, indeed, in which the protection of good will may necessitate the use of tying clauses is where specifications for a substitute would be so detailed that they could not practically be supplied.* (emphasis supplied)

This language is fatal to defendants' contention as to quality control justification for the tied paper products.

Defendants' showing on paper packaging is nothing more than a recitation of the need for distinctive packaging to be used uniformly by all franchisees in identi-

fying the hot foods. This was not contested. However, the admissions in evidence clearly demonstrate that the tied packaging was easily specifiable. In fact, the only specifications required were printing and color. Moreover, defendants have admitted that any competent manufacturer of like products could consistently and satisfactorily manufacture the packaging products if defendants furnished specifications. Those suppliers could have sold to the franchisees through normal channels of distribution. As a matter of law, therefore, this paper products tie-in cannot be justified on any grounds within the contemplation of acceptable authority.

The Susser case, on the other hand, does indicate that where quality of food is a consideration the quality control defense is relevant to the issue of justification of a tie-in. In this regard, Mr. Justice Friendly stated:

> Although instances of impossibility of control through specification may indeed be rare in cases involving the proper functioning of mechanical elements of a machine . . . such cases are scarcely relevant to the problem of controlling something so insusceptible of precise verbalization as the desired texture and taste of an ice cream cone or sundae; that Carvel was able to specify this to its source of supply, whose product it regularly checked, does not show that administration could be confided to 400 dealers. 332 F.2d at 520.

Such considerations are relevant to the asserted defense of Chicken Delight. The dip and spice mixes are alleged to be *secret* and to impart a unique and distinctive flavor to the final products. Likewise, the cooker is alleged to be unique and to prepare the food in a special manner. Con-

tradictory testimony has been offered on this aspect of the litigation. As such, a question of fact exists for the jury to determine.

On the issue of fact of damages, this Court has determined as a matter of law that the fact of damage is established. Defense counsel persists in his argument that the upcharge in the tied products should be offset by a "reasonable value" assessed for the Chicken Delight license. The Court has ruled that this evidence of valuation is not relevant. The system was sold to the franchisees on a specific basis and the evidence is complete, reflects and memorializes the bases upon which the transactions were consummated with the franchisees. The contract and all written representations by the company stated that there were no franchise fees or royalty payments. This Court will not attempt to restructure the system of defendants into one which is legally constituted and then allow an offset for imaginary or suppositious royalty fees. Such would be directly contrary to the avowed policy of the Sherman Act.

Without an offset for the supposed value of the Chicken Delight trademark, the overcharge on the tied items is established. As a matter of law therefore, the Court finds the fact of damage.

To summarize, the Court finds as a matter of law that there is an unlawful tie-in arrangement; that sufficient market control exists; that a "not insubstantial" amount of interstate commerce is affected; that no justification exists with respect to the continuity of supply of paper products; that neither the alleged justifications of convenient accounting device nor continuing source of supply

are defenses in this litigation; that the new business justification is clearly inapplicable to this case; and that the fact of damages is established.

The Court rules that the jury may consider the asserted quality control justification as to the dip and spice mixes and cookers and fryers under appropriate instructions.

To the extent consistent with the above decision and opinion, plaintiffs' motion for directed verdict must be, and the same is hereby, GRANTED.

Defendants' motion for directed verdict must be and the same is hereby DENIED.

Dated, April 6, 1970.

/s/ George B. Harris
United States District Judge

SUPPLEMENTAL MEMORANDUM

Thereafter and on April 10, 1970, the jury, after oral arguments on behalf of the respective parties and instructions as to the law by the Court, regularly returned the following special verdicts with respect to the several issues tendered, under the defendants' theory of alleged justification on the part of the defendants:

JUSTIFICATION ISSUE—DIP AND SPICE MIX

Special Verdict 2A

We the jury find that requiring franchisees to purchase dip and spice mix solely from Chicken Delight has not been legally justified under instructions given by the Court.

N. J. Davis
Jury Foreman

Civil 46271—Harvey Siegel, et al vs. Chicken Delight, Inc., et al

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JUSTIFICATION ISSUE—COOKERS AND FRYERS

Special Verdict 3A

We the jury find that requiring franchisees to purchase cookers and fryers solely from Chicken Delight has not been legally justified under instructions given by the Court.

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In addition, under the Court's order and direction, the following Special Verdict No. 1 was regularly returned by said jury:

Original Filed April 6, 1970,
Clerk, U.S. Dist. Court,
San Francisco.

DIRECTED VERDICT ON CERTAIN ISSUES

Special Verdict No. 1

We, the jury, pursuant to direction and instruction from the Court find (1) that the arrangement requiring Chicken Delight franchisees to purchase their full requirements of packaging goods, dip and spice mix, and cookers and fryers from their franchisor is a tying arrangement, (2) that Chicken Delight, by reason of its unique, registered trademarks, possessed sufficient economic power to induce its franchisees to buy the tied products, (3) that a not insubstantial dollar volume of interstate commerce in the tied products has been adversely affected, (4) there is no legal justification for the tie-in of packaging products and it is therefore unlawful, and (5) plaintiffs and members of the class have been damaged as a result of being required to purchase their full requirements of packaging goods, dip and spice mix and cookers and fryers.

/s/ N. J. Davis
Jury Foreman

Civil 46271—Harvey Siegel, et al vs. Chicken Delight, Inc., et al
Filed April 10, 1970
C. C. Eversen, Clerk

Appendix C

PRETRIAL ORDER

* * * * * *

This matter having been set for trial on February 24, 1970, and the court having requested that the parties litigant submit a joint pretrial statement setting forth an outline of the issues to be tried in the initial trial herein,

* * * * * *

It Is Hereby Ordered:

* * * * * *

II. *Issues.*

* * * * * *

By prior order of this court, it has been determined that two issues and two issues only will be tried at the initial trial herein. Those issues are as follows:

(a) Do the standard form Chicken Delight franchise agreement and defendants' conduct relating thereto constitute unlawful tying arrangements in violation of Section 1 of the Sherman Act during the period January 5, 1963 through date of trial.

(b) Were plaintiffs in fact damaged by reason of their execution of the standard form Chicken Delight contract and their purchases of items of packaging, food and equipment required under the standard form Chicken Delight franchise contract and by reason of defendants' conduct?

Appendix D

United States District Court
Northern District of California

Civil No. 46271-GBH

Harvey Siegel, et al.,
Plaintiffs,
vs.
Chicken Delight, Inc., et al.,
Defendants,
Vance E. Shepherd and Ben Zachary, a partnership, et al.,
Intervening Plaintiffs.

Chicken Delight, Inc., et al.,
Cross-Claimants,
vs.
Harvey Siegel et al., Plaintiffs and Intervening Plaintiffs,
Cross-Defendants.

ORDER CERTIFYING INTERLOCUTORY APPEAL PURSUANT TO 28 U.S.C. §1292(b)

Defendants' motion for an Order certifying these proceedings for appeal under 28 U.S.C. § 1292(b) came on for hearing before me, and the Court having considered the arguments of counsel in relation thereto and being of

the opinion that these proceedings involve controlling questions of law as to which there is substantial grounds for difference of opinion and that an immediate appeal in these proceedings may materially advance the ultimate termination of this litigation, and the Court being otherwise duly advised,

It Is Hereby Ordered that:

1. The motion of defendants for certification should be, and the same hereby is, granted; and

2. That certain Order of this Court entered on Friday, April 10, 1970, adjudging and decreeing that the verdicts of the jury be duly enrolled in the Minutes of this Court as the judgment of this Court on the issues embraced therein should be, and the same hereby is, amended by adding thereto the following:

It is the opinion of this Court that the Minute Order and judgments in favor of plaintiffs with respect to the issues embraced therein involve controlling questions of law as to which there is substantial grounds for differences of opinion and that an immediate appeal from this Order may materially advance the ultimate termination of this litigation. The controlling questions of law are as follows:

A. Assuming there is no dispute that the events in this action occurred in interstate commerce and that the amount of commerce foreclosed by the defendants' practices was quantitatively sufficient for purposes of meeting any quantitative substantiality test required in a *per se* unlawful tie-in case, under the evidence adduced at trial, was the Court, in a jury trial, justified in directing the verdict on the following issues:

(1) That the arrangement in question requiring purchases by franchisees (plaintiffs and class members) only from franchisors (defendants) of certain paper packaging items, food items and cooking equipment as a condition of a license of the right to use the trademarks, trade name and system of operation of the franchisors, was a tying arrangement.

(2) That the Chicken Delight trademark, trade name and system of operation have sufficient economic power to meet the legal standards for concluding that a *per se* violation of Section 1 of the Sherman Act exists.

(3) That under the evidence introduced, there can be no legal justification for the tie-in of the paper packaging items, and such an arrangement is, therefore, *per se* unlawful.

B. Under the evidence adduced in this case, did the Court properly instruct the jury upon the issue of legal justification with respect to the requirements that plaintiffs and the class members purchase certain food items and cooking equipment only from the defendants.

C. Under the evidence adduced at trial, was the Court in a jury trial justified in directing the verdict on the issue that plaintiffs and class members were in fact damaged as a result of being required to purchase certain paper packaging items exclusively from the defendants and, provided no legal justification was made out by the defendants, plaintiffs and the class members were also damaged as a result of being required to purchase

certain food and cooking equipment exclusively from the defendants.

Dated: April 27, 1970.

George B. Harris,
United States District Judge

Approved As To Form:
Michael N. Khourie
Royce H. Schulz
Broad, Busterud & Khourie
By /s./ Michael N. Khourie
Attorneys for Plaintiffs

M. Laurence Popofsky
Richard L. Goff
Stephen V. Bomse
Heller, Ehrman, White & McAuliffe
By /s./ M. L. Popofsky
Attorneys for Defendants

Appendix E

United States Court of Appeals
For The Ninth Circuit

No. 25908
(No. M-5034)

Chicken Delight, Inc., et al.,
Petitioners,
vs.
Harvey and Elaine Siegel, et al.,
Respondents.

ORDER

Before: BROWNING and CARTER, Circuit Judges:

The motion for an interlocutory appeal pursuant to 28 U.S.C. § 1292(b) is granted.

The motion to expedite the appeal is denied. However the court will not look with favor on requests for extensions beyond the times set forth in the Rules.

James R. Browning
James H. Carter
Circuit Judges

Filed: May 26, 1970, Wm. B. Luck, Clerk.

Appendix F

RELEVANT PROVISIONS FROM FEDERAL STATUTES

I. Sherman Antitrust Act

15 U.S.C. § 1:

Trusts, etc., in restraint of trade illegal; exception of resale price agreements; penalty.

"Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. . . ."

II. Clayton Antitrust Act

15 U.S.C. § 15:

Suits by persons injured; amount of recovery.

"Any person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount of controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorneys fee."

III. Lanham Act

15 U.S.C. § 1115(b)(7):

Same; registration on principal register as evidence of exclusive right to use mark; defenses

* * * * *

"(b) If the right to use the registered mark has become incontestable under section 1065 of this title, the registration shall be conclusive evidence of the registrant's exclusive right to use the registered mark

in commerce on or in connection with the goods or services specified in the affidavit filed under the provisions of said section 1065 subject to any conditions or limitations stated therein except when one of the following defenses or defects is established:

* * * * *

(7) That the mark has been or is being used to violate the antitrust laws of the United States. July 5, 1946, c. 540, Title VI, § 33, 60 Stat. 438; Oct. 9, 1962, Pub.L. 87-772, § 18, 76 Stat. 774."

Appendix G

AGREEMENT

THIS AGREEMENT, made and entered into this 22 day of March,

A. D. 196 5 by and between CHICKEN DELIGHT OF CALIFORNIA, INC., a California corporation,

and _____, hereinafter sometimes collectively referred to as
as joint tenants with right of survivorship
first party, and Harvey & Elaine Siegel, _____, of the City of Walnut Creek

State of California, hereinafter sometimes referred to as second party.

WHEREAS, there is a substantial and increasing public demand for hot, freshly prepared and uniform food products, carried out by the consumer or delivered to the consumer in a state for immediate consumption at times and places convenient to the consumer, and Chicken Delight, Inc., is the originator of special preparations, packaging, methods and systems of operation useful in the efficient preparation, sale and delivery of such food products; and

WHEREAS, "Chicken Delight" and other trademarks associated therewith are valuable properties for identifying to the public certain hot, freshly prepared food products, some of which are prepared with certain unique equipment, and all of which are packaged in and include certain distinctive products, and prepared, sold and delivered as prescribed by Chicken Delight, Inc.; and

WHEREAS, Chicken Delight of California, Inc. is an independent sales representative for the "Chicken Delight" franchise rights to the market hereinbelow described and has recommended the selection of second party to enjoy such rights in such market; and

WHEREAS, second party is desirous of engaging in the business of the preparation and sale of hot, freshly prepared packaged foods as hereinbelow described, and represents that he is willing to conduct such business so as to deliver to the public the products and services identified to the public by "Chicken Delight" and other trademarks associated therewith;

NOW, THEREFORE, in consideration of the covenants herein contained and of further valuable consideration, the parties hereto do hereby agree as follows:

1. Chicken Delight of California, Inc. hereby licenses to second party, during the term and upon the conditions hereinafter set forth, the right and franchise to use the names, symbols, method, and system of operation of "Chicken Delight", from a store situated at 2146 Center Street, in the City of ~~[illegible]~~ Berkeley, County of Alameda, and State of California, and within the adjacent market bounded by that part of Berkeley, per attached map.

Second party acknowledges that it is an essential element of the public understanding of the meaning of "Chicken Delight" that hot, freshly prepared and uniform foods from a "Chicken Delight" store will be delivered promptly and at the time designated by the customer; and second party represents and agrees that the aforesaid description of the franchised market constitutes the reasonable boundaries of an area within which such prompt and timely delivery may be accomplished and that he will make such prompt and timely delivery of such hot, freshly prepared food in all of said market. Second party acknowledges that heretofore he has not been engaged in the sale of carry-out food products. Chicken Delight of California, Inc. agrees to disclose to and instruct second party as to special preparations, packaging, methods

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and systems of operation in the sale of said packaged foods, which second party acknowledges constitut trade secrets, and he agrees not to disclose them to anyone except his "Chicken Delight" store employee and not to use them except in his "Chicken Delight" business. Second party agrees that he will not divulg any business information, whether written or oral, received from first party or its authorized representa tive, or from any meetings of "Chicken Delight" store owners, nor use such information except in hi "Chicken Delight" business, until such time as disclosure to the public may be required by the nature o the information, which information includes (but is not limited to) promotional material or plans, expan sion plans, new products, marketing information, cost or other financial data, or development of cookin or packaging procedures. Second party agrees that he shall use only the name "Chicken Delight" and th trademarks associated therewith in the sale of said packaged foods and that his place of business fo such sale shall be known only as "Chicken Delight." Second party agrees that no food shall be sold fo consumption on his premises.

2. Said packaged foods shall consist of, and be limited to, the following, all of which shall be sold an delivered hot and freshly prepared except for cole slaw:

(a) Chicken dinner — one-half of what is known in the poultry trade as an average 2½-2½ pound dressed and drawn Grade A frying chicken (weighing one pound fifteen ounces to two pounds one ounce without giblets and neck), cut into four pieces according to specifications of Chicken Delight, Inc., pre pared, processed, and cooked in conformity with the method of Chicken Delight, Inc.; a generous portion of crinkle-cut French fried potatoes; a blueberry muffin; and a fully enclosed container of cranberry sauce or an approved substitute.

(b) Shrimp dinner — eight of what is known in the shrimp trade as 26/30 count raw shrimp, bread ed to 15/20 count, Grade A U.S.D.I., obtained from the Gulf of Mexico, frozen but once, and prepared processed and cooked in conformity with the method of Chicken Delight, Inc.; a generous portion of crinkle-cut French fried potatoes; a blueberry muffin; a fully enclosed container of cocktail sauce; and a package of mints.

(c) Fish dinner — eight ounces of what are known in the fish trade as fish fillets, prepared, processed and cooked in conformity with the method of Chicken Delight, Inc.; a generous portion of crinkle-cut French fried potatoes; a blueberry muffin; and a fully enclosed container of tartar sauce.

(d) Rib dinner — twelve ounce cooked weight portion of pork loin back ribs (and not spareribs) which are described in the meat trade as a one and one-quarter pound to one and three-quarters pound size, prepared, processed, and cooked in conformity with the method of Chicken Delight, Inc.; a generous por tion of crinkle-cut French fried potatoes; a blueberry muffin; and a fully enclosed container of barbecue sauce.

(e) Chicken snack (99'er) — same as chicken dinner, except that the chicken shall consist of a wing and a breast or a thigh and a drumstick.

(f) Shrimp snack (99'er) — same as shrimp dinner, except that there shall be but five shrimp and there shall be no muffin.

(g) Fish snack (99'er) — same as fish dinner, except that there shall be but four ounces of fish fillets and there shall be no muffin.

(h) Rib snack (99'er) — same as rib dinner, except that there shall be but eight ounces of ribs and there shall be no muffin.

(i) Bucket O'Chicken — bulk orders of chicken, shrimp, fish or ribs, as hereinabove described.

(j) Pizza pie — in 9", 12" and 16" sizes, prepared, processed and baked in conformity with the method of Chicken Delight, Inc.

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(k) Cole slaw — prepared and processed in conformity with the method of Chicken Delight, Inc.

(l) Crinkle-cut French fried potatoes prepared, processed and cooked in conformity with the method of Chicken Delight, Inc.

(m) Blueberry muffin.

In the event that items other than those hereinabove specified are approved by Chicken Delight, Inc. for standard use in other "Chicken Delight" businesses, Chicken Delight of California, Inc. will grant second party permission to sell such other items upon the terms and conditions herein contained.

3. Second party is specifically granted the right and privilege to sell food or other products other than those herein specified, provided they are prepared at or sold from an entirely separate store, identified by a different trade name, and if delivered, delivered from a vehicle bearing no trademark of first party. Second party agrees not to use the "Chicken Delight" premises or trademarks for the sale of any products other than said "Chicken Delight" food products hereinabove described or in conjunction with or on the same premises with any other business or occupation.

4. The price to be charged to patrons by second party for any and all such products, whether or not specified herein, or any combination thereof, shall be determined in the sole discretion of second party.

5. Chicken, shrimp, fish, ribs, pizza, and potatoes shall be cooked in plain view of patrons, and wherever possible, in plain view of passers-by on the exterior of said place of business. Second party agrees to use only fresh, refrigerated chicken and not to use preserved chicken, such as canned, frozen, or cold storage chicken. Second party agrees that he will not pre-cook chicken, shrimp, fish, or pizza in anticipation of orders not yet placed but will cook from a raw state as each order is placed. No frozen pizza crust, or frozen or pre-baked pizza pie shall be used. Such foods as may be frozen shall be frozen but once.

6. In order to enable second party to engage in the business of preparation, sale and delivery of hot, freshly prepared foods in accordance with the public understanding of "Chicken Delight" and associated trademarks, Chicken Delight of California, Inc. will furnish, and second party agrees to buy, certain unique and distinctive articles essential in the conduct of the business; and in addition such other articles, also essential in the conduct of such business, as second party has indicated a desire to purchase from Chicken Delight of California, Inc. all as indicated on the list attached hereto and made a part hereof.

The purchase price of such articles is the sum of $ XXXXXXX ; payable in cash in advance of shipment,

of which it is acknowledged that the price of the cookers and fryers is the sum of $ XXXXXXXXX .
Second party has determined not to buy from Chicken Delight of California, Inc. the articles which have been deleted from the printed form of list attached hereto. As such articles as have been deleted are, in the opinion of Chicken Delight of California, Inc., essential for the efficient conduct of the business described herein in accordance with the public understanding of "Chicken Delight" and associated trademarks, second party agrees to obtain at his expense and for use in his business, all such articles, meeting the reasonable standards of Chicken Delight, Inc., from any source desired.

7. Chicken Delight of California, Inc. represents and warrants that it has no financial arrangement with second party's suppliers, whether by rebate or otherwise in the purchase of chicken, shrimp, fish, ribs, potatoes, or shortening, and second party is at liberty to purchase such items from any source whatsoever provided, however, that such items meet the reasonable standards of Chicken Delight of California, Inc.

8. Second party recognizes the importance of furnishing products prepared in conformity with the method of Chicken Delight, Inc. in distinctive packaging, identified by "Chicken Delight" or other associated trademarks. Second party agrees to sell each said food product in an individual enclosed paper or plastic container bearing the standard identification and trademark of "Chicken Delight". Chicken De-

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light of California, Inc. agrees to sell or make available to second party, and second party agrees to buy solely from Chicken Delight of California, Inc. or such other person or corporation as may be designated by it, the requirements of second party for dinner kits (consisting of a dinner size container, spoon, napkin, and cranberry sauce or equivalent), snack kits (consisting of a snack size container, and package of mints), large buckets (being known in the trade as a ten-pound pail), medium buckets (being known in the trade as a five-pound pail), small buckets (being known in the trade as a two-pound pail), pizza kits (consisting of a carton and a corrugated liner), and other distinctive packaging, all from time to time authorized by Chicken Delight, Inc. and bearing one or more of its trademarks. The prices therefor will be 16 cents for dinner kits, 12 cents for snack kits, 26 cents for large buckets, 21 cents for medium buckets, 15 cents for small buckets, 16 cents for 9" pizza kits, 19 cents for 12" pizza kits, and 27 cents for 16" pizza kits, from the date hereof to December 31, 196 5, and from time to time thereafter will be no greater than ten (10) per cent more than the price in any previous six months' period. In the event of any increase in price, the new price shall not exceed the price stated herein by a percentage greater than the percentage increase in cost of Chicken Delight of California, Inc., and upon request Chicken Delight of California, Inc. will furnish second party with a statement from its independent certified public accountants that it does not. Purchases will be made in minimum quantities of five thousand (5,000) units and according to the requirements of second party for packaging. Second party agrees to buy from Chicken Delight of California, Inc., the special "Chicken Delight" batter preparation, the special "Chicken Delight" barbecue rib seasoning, and the "Chicken Delight" cole slaw cups, lids, French fry bags and carry out bags for reasonable prices, and that he will not use substitutes thereof in his "Chicken Delight" business.

9. Second party recognizes the importance of publicizing the "Chicken Delight" and other associated trademarks by all reasonable means. Chicken Delight of California, Inc. agrees to spend three (3) cents per kit or bucket for advertising and promoting "Chicken Delight" products.

10. All of the equipment and supplies of every nature sold and to be sold hereunder are quoted F.O.B. shipping point and for cash in advance of shipment.

11. Second party agrees that said business shall be conducted and operated only at a location within said market area approved by first and second parties, and that the construction or remodeling of his premises shall meet the reasonable standards of first party. Second party agrees that construction or remodeling of his premises will be commenced within thirty (30) days after the execution of this agreement, and that said construction or remodeling will be thereafter diligently pursued to completion and opening of said "Chicken Delight" business within a reasonable time. First party agrees to furnish an installation manual, including plans and specifications.

12. First party agrees to furnish an operational manual, and from time to time promotional and other recommendations. First party agrees to make personnel training facilities available to second party, and to furnish to second party at his place of business a trained supervisor for not less than five (5) days.

13. Second party agrees to purchase chicken, shrimp, fish, ribs, potatoes, muffins, and all other foods and materials only of a uniform and high quality. Chicken Delight of California, Inc. agrees to furnish upon request information regarding sources of food supplies. Second party agrees that all foods shall be prepared and cooked at a uniform and high quality. As to food products which require preparation in shortening, second party agrees to use only all-vegetable shortening.

14. Second party agrees to purchase or lease, and to use at all times, an adequate number of delivery vehicles and to plainly mark them and his place of business with the standard trademarks of Chicken

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Delight, Inc. Second party agrees to maintain a free and adequate delivery service within the entire market herein described, and to use delivery ovens which properly preserve heat until delivery to the consumer.

15. Second party agrees to maintain the premises and equipment which are to be used in the performance of this agreement in good repair and at a high degree of cleanliness and sanitation, and to comply with the food and sanitary laws and regulations of any and all governmental units in whose jurisdiction its business is located.

16. Second party agrees to allow first party, or its authorized representative, the privilege of complete inspection of his business, both inside and out. Second party agrees to open his books and records to the inspection of first party, provided, however, that second party shall have been given reasonable advance notice and that the inspection shall not interfere with the operation of second party's business. Second party agrees to furnish to Chicken Delight of California, Inc., a prescribed weekly report of each week's business no later than one week thereafter.

17. None of the first parties hereto promise to bring or defend any law suits arising over the imitation of any business, names, or symbols, except as first party, or any of them, may in the exercise of their own discretion choose to engage in.

18. Second party acknowledges the value of free delivery, uniformity and product control of quality, appearance, and high delivery standards, and further acknowledges observance of them by him as of great value to all other operators of "Chicken Delight" businesses.

19. This agreement shall be binding upon and inure to the benefit of the successors and assigns, or to the reorganization or purchasers of first party and the heirs, administrators, executors, and assigns of the second party, provided, however, that no assignment by second party shall be valid without the prior consent in writing by Chicken Delight of California, Inc. and the entry into a new and then standard "Chicken Delight" agreement between second party's assignee and Chicken Delight of California, Inc.

20. This agreement shall continue for a period of five (5) years from the date hereof, and shall be automatically renewed for three successive five-year terms, unless, at least six months before the expiration of any five-year-term, second party gives to Chicken Delight of California, Inc. notice in writing of termination at the end of such term. Following the conclusion of the last such five-year-term, this agreement shall continue from year to year, unless terminated by either party by giving sixty (60) days' notice in writing to the other. Second party recognizes that the good will in the "Chicken Delight" and associated trademarks, for which no franchise or other such fee has been required as a condition to entering this agreement, may continue to attach to any food carry-out business conducted at the same premises as a former "Chicken Delight" franchise. It is accordingly agreed that if second party determines to exercise his right of termination prior to the end of the last such five-year-term, he will, at the time and as a condition of such exercise, offer to Chicken Delight of California, Inc. the option to acquire all or any part of the physical assets used in his business at such premises. The price for which such assets may be acquired by first party shall be the cost to the second party of the assets in question, less an allowance for depreciation of eighty-five (85) per cent.

21. In the event of a breach or threatened breach of the terms of this agreement by either party, the other party shall forthwith be entitled to an injunction restraining such other party from such breach without showing or proving any actual damage sustained. Any action for second party's breach of this agreement shall be separately maintainable by any of the first parties. It is specifically acknowledged that disclosure by second party of "Chicken Delight" special preparations, packaging, methods, systems of operation or any business information referred to in paragraph 1 hereof, to anyone except his "Chicken Delight" store employees, or use thereof by second party except in his "Chicken Delight" business, shall constitute a material breach of this agreement and shall terminate this agreement. No termi-

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nation of this agreement by first party, or of the right, title and interest of second party shall prejudice the accrued rights of first party or other rights created herein. In the event of the breach of this agreement or the termination of second party's "Chicken Delight" business for any reason, Chicken Delight of California, Inc. is hereby granted the right and option to purchase all cookers and fryers which were recommended for use in said business by first party or sold by first party, whether now or hereafter purchased or owned by second party, and the price therefor shall be the price paid by second party less an allowance for depreciation of thirty (30) per cent during the first year hereunder, fifty-five (55) per cent during the second year, seventy-five (75) per cent during the third year, and eighty-five (85) per cent at all times thereafter.

22. In the event of the breach of this agreement by second party or the termination of second party's business for any reason prior to the expiration of the last five year term provided herein, second party, (and its officers, directors and shareholders) agrees:

(a) Not to engage in the business of the sale of carry out or delivered packaged foods as described herein within said market area for a period of one year following such breach or termination, whether directly or indirectly, including but without being limited to the capacities of owner, partner, shareholder, director, officer or employee.

(b) To assign any real estate lease under which he has been operating his "Chicken Delight" business.

23. In the event of the breach of this agreement by second party or the termination of second party's "Chicken Delight" business for any reason at anytime, including, but without being limited to the expiration of the last five year term provided herein, second party agrees:

(a) The license herein granted shall thereupon be terminated and second party shall immediately remove all evidence of the name and symbols of "Chicken Delight" and the other trademarks associated therewith.

(b) To relinquish the telephone numbers then assigned to his "Chicken Delight" business.

24. In the event of a sale of any existing "Chicken Delight" business, it is sometimes necessary for Chicken Delight of California, Inc., to perform various services in connection therewith, some of which may include the approval of the purchaser, approval of a new site, providing prospective purchasers, drawing new agreements, assisting in financing, furnishing promotional aids, and training the buyer. In the event of a sale of second party's "Chicken Delight" business, second party shall pay to Chicken Delight of California, Inc., a service charge of seven and one-half (7½) per cent of the sales price.

25. Neither party shall be responsible for any contingency unavoidable or beyond his or its control wherever arising, including, but without being limited to, strike, flood, riot, war, fire, rebellion, governmental limitation, and any such contingency shall excuse the inability or refusal or delay in filling or shipping orders; provided, however, nothing herein contained shall be interpreted as an excuse or defense for the failure to pay for goods.

26. The name of any corporation operating any "Chicken Delight" business may include the words "Chicken Delight" or any other trademark owned by or licensed to first party, but only with the written consent of first party. In the event of the termination of this agreement for any reason, the name of any such corporation shall be duly amended to delete such words.

27. If second party shall be adjudicated bankrupt, or shall make a general assignment for the benefit of creditors, or take benefit of any insolvent act, or if a receiver or trustee of the interest of the second party shall be appointed by a court of competent jurisdiction, or if after the opening of second party's "Chicken Delight" business it shall be closed for a period of ninety (90) days for any reason other than relocation or remodeling, or if second party shall default upon any financial obligation upon which Chick-

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en Delight of California, Inc. has undertaken any secondary financial obligation, then in any such event first party, or either of them, shall have the right, without further notice, to terminate and end this Agreement, as well as all of the right, title and interest of second party hereunder, but without prejudice to the accrued rights of first party or other rights to terminate not specified in this agreement.

23. This agreement and the addenda attached hereto contain the entire agreement of the parties and no representations, inducements, promises, or agreements, oral or otherwise, not embodied herein shall be of any force or effect. No failure of first party to exercise any power given it hereunder or to insist upon strict compliance by second party of any obligation hereunder, and no custom or practice of the parties at variance with the terms hereof shall constitute a waiver of first party's right to demand strict compliance with the terms hereof.

24. The invalidity or partial invalidity of any portion of this agreement shall not invalidate the remainder of this agreement.

Executed at Los Angeles, California, the day and year first above written.

ADDENDUM

Inasmuch as the equipment for this store is being purchased from La Rue H. & Sandra J. Andre, the following fair values are herewith established for the purpose of the option referred to in Paragraph No. 20:

T&C Cookers. . . . .$300.00 each
A.F. Fryers. . . . .$250.00 each

In executing this agreement, CHICKEN DELIGHT OF CALIFORNIA, INC., hereby releases La Rue H. & Sandra J. Andre, of all liability under Contract No. 03205, dated April 1, 1963, which is cancelled in its entirety. La Rue H. & Sandra J. Andre herewith releases CHICKEN DELIGHT OF CALIFORNIA, INC., from the provisions of Contract No. 03205 and relinquishes all rights established by Contract No. 03205.

CHICKEN DELIGHT OF CALIFORNIA, INC.,
a California Corporation

By Frederick H Sawell (SEAL)
Its Authorized Agent
Vice President

Kinsey Siegel (SEAL)

Elaine Siegel (SEAL)
Second Party
Elaine Siegel

Frederick H Sawell 3/31/65
CHICKEN DELIGHT OF CALIFORNIA, INC. Date
4/5/65

LaRue H. Andre
La Rue H. Andre

Sandra J. Andre

BEST AVAILABLE COPY

AGREEMENT

THIS AGREEMENT, made and entered into by and between CHICKEN DELIGHT OF CALIFORNIA, INC., a California corporation, hereinafter referred to as "Corporation", party of the first part, and Harvey & Elaine Siegel Franchise Holder, hereinafter referred to as "User", do agree as follows:

A. User understands that Corporation holds a rental agreement for the neon sign by virtue of a Master Agreement entered into by and between INTER CITY NEON PLASTIC, owner of the sign, and Corporation. Corporation does hereby sell, assign, transfer and set over unto User all of its rights to the use of said neon sign under said Rental Agreement and does hereby undertake to perform any and all terms, covenants and conditions set forth in said Rental Agreement and any amendments or supplements thereto and does accept full responsibility with reference to the duties, terms and conditions set forth therein.

B. User understands and agrees that this right to the use of said neon sign shall exist during the term of the franchise agreement, so long as User remains in good standing as a franchise holder and operator of Chicken Delight of California, Inc. If at any time User shall be in default under the terms of the franchise agreement herein referred to, Corporation shall have the right to terminate and declare cancelled, null and void and of no further effect the right to use said neon sign.

C. It is further understood that upon termination of the franchise agreement for any reason whatsoever, Corporation shall have the right to declare the right to the use of said neon sign by the User terminated, null, void, cancelled and of no further effect.

D. Rent for the use of said neon sign shall be paid by User directly to Inter City Neon Plastic at the rate of Sixty dollars ($60.00) per month for a term of three years. User agrees to pay the last three months' rent for the use of said neon sign in advance, which said sum shall be paid upon the execution hereof, the receipt of which is hereby acknowledged. The initial monthly rental shall be paid 45 days from date of the execution of this agreement. 6 months

E. Upon the expiration of the said three-year period of time, the terms of this agreement shall be extended for an additional term of three years and User shall pay to Inter City Neon Plastic, for the servicing of said neon sign the sum Twenty dollars ($20.00) per month for each month during said additional three year term.

F. Lessee to pay all costs if sign is moved or relocated from original installation to any other place on the same building or on a new building or location.

G. Should the franchise agreement in any manner be in default, said neon sign may be removed from the premises at the election of the Corporation or Inter City Neon Plastic.

DATED: 5-6-70, 19

CHICKEN DELIGHT OF CALIFORNIA, INC.

By [signature] Vice President

[signature] Harvey Siegel Franchise Holder

[signature] Elaine Siegel Franchise Holder

BEST AVAILABLE COPY

In the Supreme Court
OF THE
United States

OCTOBER TERM, 1971

No. 71-824

HARVEY and ELAINE SIEGEL, et al., *Plaintiffs-Petitioners*,

vs.

LANCER DISTRICT, Inc., et al., *Defendants-Respondents*.

BRIEF OF RESPONDENTS IN OPPOSITION

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GENERAL PRINTING CO., SAN FRANCISCO, CALIFORNIA

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In the Supreme Court
OF THE
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OCTOBER TERM, 1971

No. 71-824

HARVEY and ELAINE SIEGEL, et al., *Plaintiffs-Petitioners*,

vs.

CHICKEN DELIGHT, INC., et al., *Defendants-Respondents*.

BRIEF OF RESPONDENTS IN OPPOSITION

Respondents Chicken Delight, Inc., Chicken Delight of California, Inc. and Consolidated Foods Corporation respectfully pray that the Petition for a Writ of Certiorari (No. 71-824) filed December 23, 1971 by Harvey Siegel, *et al.*, be denied. However, respondents urge that their own Petition for Writ of Certiorari (No. 71-810) filed December 20, 1971 be granted.

THE CHICKEN DELIGHT FRANCHISE SYSTEM

The franchisees' Petition and this Brief in Opposition relate solely to the issue of damages upon which the Ninth Circuit has reversed and remanded the case to the

district court for further trial. As respects the damage issue, the following facts are pertinent:[1]

Under Chicken Delight's standard form franchise contracts, its licensees have been authorized to use the franchisor's registered trademarks and system of operation for the purpose of selling at retail a limited menu of exclusive-recipe food items. Respondents' franchisees are charged no initial franchisee fee; nor are they obligated to pay a percentage of their gross sales by way of royalty to the franchisor for use of the trademark and system license. However, as consideration for the license and as a condition of operation as a Chicken Delight franchisee, the licensee agrees to purchase his full requirements of the so-called required items (*i.e.*, paper packaging, dry-mix food items and certain cooking equipment) from the franchisor exclusively, at prices specified in the franchise agreement. The sale of these items provides Chicken Delight with its sole source of trademark revenue. Accordingly, Chicken Delight's stated price for the required items has included, in addition to its cost of the goods, a franchisor's mark-up, *i.e.*, a mark-up believed sufficient to compensate Chicken Delight for the reasonable value of its licensed trademarks and system. Respondents contend that the contractual prices thus paid by the franchisees are equal to the fair market value of the tying and tied products received in return.

---

[1]For purposes of this Brief in Opposition, it is assumed *arguendo* that Chicken Delight's contractual requirements practice involves a tie-in. In fact, that claim is strenuously disputed by respondents and forms the subject matter of a cross-petition for certiorari which is now pending before this Court (No. 71-810).

Since most companies in the fast-food industry derive compensation for their trademark license through a separately stated franchise fee and royalty based upon a percentage of franchise sales, Chicken Delight offered evidence at trial which stated the economics of its system in this more common framework. Respondents (as well as the franchisees) presented evidence which demonstrated that Chicken Delight's total mark-up on the sale of the required commodities was approximately 3.2-3.6% of its franchisees' sales. Further, respondents offered evidence, by way of an industry-wide survey, to show that this percentage did not exceed the average separately stated royalty charged by comparable franchise companies. The bulk of this evidence was excluded by the trial court as legally irrelevant.

THE DECISIONS BELOW RESPECTING THE FACT OF DAMAGE

In granting the franchisees' motion for directed verdict, the district court held that the fact of damage was established as a matter of law by proof that the prices Chicken Delight charged for the required (tied) commodities were higher than those charged by third-party sellers of comparable items. The court further held that any evidence respecting the value of the *tying* product (the Chicken Delight trademark license) was, as a matter of law, irrelevant. Necessarily the effect of its ruling was to fix not only the fact, but also the measure, of the franchisees' damages. See Appendix B to the Petition herein at 28.

On appeal, the Ninth Circuit reversed the district court's damage holding and remanded the case for further trial on that issue. The Court of Appeals held that in determining whether Chicken Delight's tying practice had caused injury to the franchisees, it was necessary to compare the prices actually paid by the franchisees with what it would have cost them to purchase the tying as well as the tied items, if purchased free from the unlawful arrangement. Appendix A to the Petition at 16.

QUESTION PRESENTED

The franchisees' Petition appears to raise the following question:

> In a buyer's treble damage action based upon an alleged tie-in, is the value of, and price paid for, the tying product irrelevant as a matter of law in determining whether the buyer has been damaged as a proximate result of the challenged practice?

ARGUMENT

A. THE NINTH CIRCUIT'S DAMAGE HOLDING DOES NOT PRESENT ANY SUBSTANTIAL OR UNRESOLVED QUESTION REQUIRING REVIEW BY THIS COURT.

The franchisees' lengthy discussion of the "fact of damage" issue suggests that the decision below is in some way novel, or is contrary to established antitrust precedent. In fact, the challenged holding is demonstrably correct; in order to determine whether plaintiff-franchisees have been damaged in any amount as a result of Chicken Delight's allegedly unlawful tying practice, it is necessary to con-

sider what it would have cost them to purchase *both the tied and the tying products* separately and in the absence of the tie-in. As the Ninth Circuit stated:

> By its own terms, Clayton Act recovery is available only where actual injury has been suffered. Wickler & Smith Citrus Products Co. v. Sunkist Growers, Inc., 346 F.2d 1012, 1014 (9th Cir. 1965). The question here is whether the plaintiffs have suffered injury by virtue of the unlawful arrangement to which they were subjected. That arrangement of necessity involved both tying and tied products. To ascertain whether an unlawful arrangement for the sale of products has caused injury to the purchaser, the cost or value of the products involved, free from the unlawful arrangement, must first be ascertained. Cf., Perma Life Mufflers, Inc. v. Int'l Parts Corp., 392 U.S. 134, 140, 88 S.Ct. 1981, 20 L.Ed.2d (1968). (See Appendix A to the Petition at 16).

The franchisees view the matter differently. To establish the fact of damage, they assert, the total prices paid by franchisees under the assumed tie-in should be compared *only* with prices charged by third-party sellers for items comparable to the "tied" commodities (*e.g.*, paper plates, batter dip, etc.). For the franchisees, the tying product is deemed an "extrinsic" factor, and all evidence pertinent to its market value is irrelevant as a matter of law. In short, for damage purposes, the franchisees suggest that the economically powerful tying product—vital to proof of illegality in the first instance—is to be disregarded, or valued at zero.

Yet if it be assumed that the franchisees should have been free to purchase the tying and the tied products sep-

arately, it would still have been necessary for them to have acquired and used both the Chicken Delight trademark license and the required commodities in order to operate as Chicken Delight franchisees.[2] In such circumstances, as the Ninth Circuit recognized, it makes no sense to determine the existence of damages by comparing the prices paid under the challenged tying arrangement solely with prices those franchisees would have paid for the tied commodities, if available from other sources, without also taking into account the cost of the tying product absent the restraint.

The franchisees' Petition nonetheless argues that the Ninth Circuit's holding accords respondents an "offset" against established overcharge damages for the reasonable value of the Chicken Delight trademark license. Petition at, *e.g.*, 12-14. That claim, however, is based upon a fundamental misconception. Far from granting any "offset" against a demonstrated overcharge, the opinion below correctly notes that the value of the trademark license must be considered in the first instance in determining whether there has in fact been any overcharge. For if the amount franchisees paid under the assumed tying arrangement did not exceed the market value of the essential components of that arrangement—*i.e.*, both the trade-

[2]The franchisees have conceded that Chicken Delight could properly have required them to *use* the required commodities in their franchise operations. They dispute only the requirement that such commodities be purchased from Chicken Delight. It is also undisputed that the franchisees would have neither the right nor the desire to purchase special Chicken Delight trademarked packaging and the other required commodities unless they also had a license to use Chicken Delight's trademark and system.

mark license and the required commodities—there has been no overcharge, and no damage.[3]

Similarly, the franchisees' contention that proof of damage under the Ninth Circuit decision would be overly complex and require lengthy trial proceedings is without merit. Petition at 19-22. As an initial matter, it is clear that mere complexity cannot excuse the treble damage plaintiff from proving actual injury, as required by §4 of the Clayton Act. Moreover, the franchisees' suggestion of difficulty here is seemingly little more than *in terrorem*. In the usual case, valuation of the tying product presents no difficulty because it is a tangible article of commerce. The fact that here the tying product is a trademark license may render valuation somewhat less precise, but no more complex. In this connection, we note that at the initial trial, the franchisees' own distributor witness, long familiar with the field of fast-food franchising, opined that a royalty of 3.5% of franchisee gross sales constituted reasonable compensation for use of a trademark license and was comparable to rates charged by numerous other franchising firms. Defendants' market studies were to the same effect. What is more, this type of evidence is no different in kind from that traditionally employed by plaintiffs and defendants alike in treble damage actions

[3]The franchisees also suggest that the decision below is contrary to established antitrust policy notions favoring the private treble damage action. While the importance of the private remedy is, of course, well-settled, it still remains a statutory precondition of recovery for the plaintiff to prove that he has in fact suffered injury as a result of defendants' unlawful conduct. See 15 U.S.C. §15. See, *e.g.*, *Story Parchment Co. v. Paterson Parchment Paper Co.*, 282 U.S. 555, 562 (1931); *Gottesman v. General Motors Corp.*, 414 F.2d 956, 961 (2nd Cir. 1969); *Flintkote Co. v. Lysfjord*, 246 F.2d 368, 392 (9th Cir. 1957). Compare also Timberlake, FEDERAL TREBLE DAMAGE ANTITRUST ACTIONS, §20.02 (1965).

under the rubric of "the yardstick." See, *e.g.*, *Bigelow v. RKO Radio Pictures*, 327 U.S. 251 (1946); *Richfield Oil Corp. v. Karseal Corp.*, 271 F.2d 709 (9th Cir. 1959) *cert. denied*, 361 U.S. 961 (1961). Compare Timberlake, FEDERAL TREBLE DAMAGE ANTITRUST ACTIONS, *supra* at §21.11.

B. THE NINTH CIRCUIT'S DAMAGE HOLDING IS NOT CONTRARY TO PRIOR DECISIONS OF THIS COURT

The franchisees further contend that there is a conflict between the opinion of the Ninth Circuit below and prior decisions of this Court, particularly *Hanover Shoe v. United Shoe Machinery Corp.*, 392 U.S. 481 (1968) and *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969). No such conflict, either in holding or principle, in fact exists.

(1) *Hanover Shoe.* The franchisees place principal reliance upon this Court's "passing on" decision in the *Hanover Shoe* case. In *Hanover*, defendant United was found to have monopolized the shoe machinery industry as a result of its "lease only" policy. The district court further found that as a result of this illegal practice, plaintiff Hanover was damaged in the amount by which its payments for machines leased from United exceeded the costs Hanover would have incurred had it been able to purchase the machines from United. On appeal, the damage award was affirmed by this Court, which further held (in the most widely cited aspect of the case), that defendants were not entitled to reduce plaintiffs' damage claim by showing that Hanover had in fact "passed on" some or all of the excess cost through increased sales prices to its third party customers.

But nothing in *Hanover* is contrary to the decision below. First, unlike defendant United, respondents here do not claim that its franchisees have "passed on" increased costs to their retail customers, or that they are thereby entitled to an offset. Moreover, in *Hanover*, the violation had concededly enabled defendant United to reap from its buyers a higher price than would have otherwise been obtainable for the property sold. Thus, overcharge damages had been sustained *by someone*—in the first instance by the buyer, and in any event by its customers who were obliged to pay the higher ("passed on") prices. Yet in the absence of proof that Chicken Delight obtained more than the market value of both the trademark license and required commodities, *no one* has suffered overcharge damages, and neither sound economics nor antitrust policy requires the creation of artificial damages where none exist.

The Ninth Circuit's decision is in fact fully consistent with *Hanover*. As noted, the district court found that plaintiff Hanover had been damaged by having paid more to lease defendants' machines than it would have paid if the machines had been available for purchase. Significantly, in computing the amount Hanover "would have paid," the court did not look merely to the probable purchase price, but added to that price other direct costs Hanover would have incurred in a purchase transaction. Thus, in determining the amount of the claimed overcharge, the court took into account (1) the amount of interest which Hanover would have paid on money borrowed to purchase the machines and (2) the probable amount it would have cost Hanover to maintain and repair the machines if it had

purchased them outright from United (which had previously provided such service *without separate charge* under its lease-only arrangement). This latter aspect of *Hanover* bears striking resemblance to the situation at bar, where Chicken Delight's trademarks and system were licensed without separate charge in conjunction with the sale of the required packaging, food and equipment items.

The court in *Hanover* at no point suggested that United's failure to have charged separately for maintenance and repair required the assumption that plaintiff could have obtained that service free of charge absent defendants' unlawful leasing practice. Likewise here, the Ninth Circuit properly held that the value of respondents' trademark and system license, which was provided to franchisees without separate charge as an integral part of the alleged tying arrangement, cannot realistically be disregarded in determining the existence of the purported overcharge.

(2) *Lear, Inc. v. Adkins.* The franchisees' reliance upon *Lear, Inc. v. Adkins, supra,* is equally misplaced. *Lear,* which was a non-antitrust patent case, is cited by the franchisees for the proposition that a court will not permit a patentee to recover unpaid royalties where the patent has been used to violate the antitrust laws. Petition at 25-26. From this, the franchisees assert that the value of the Chicken Delight trademark license cannot be considered in assessing damages, and that all consideration paid under their contracts in excess of the separate value of the "tied" products must be refunded to them trebled.

The franchisees have both miscited and misinterpreted *Lear.* First, the primary thrust of that case was this

Court's overruling of the unique patent doctrine of "licensee estoppel" under which a patent licensee was formerly prevented from attacking the validity of a licensed patent during the license term. Indeed, the case's only ruling with respect to royalties was its corollary holding that an *affirmative suit* to recover upaid royalties will not lie where patent invalidity is established.

Yet that holding in no sense supports the franchisees claim here since refusal to permit recovery of royalties under license of an invalid patent reflects no more than proper recognition of the fact that the patent, since invalid, was of little or no value to the licensee. By contrast, the franchisees here, far from attacking the validity or value of Chicken Delight's trademarks and system license, have made the purported market power of that license the very cornerstone of their claim of illegality.

C. THE FRANCHISEES' PETITION FOR REVIEW OF THE NINTH CIRCUIT'S DAMAGE RULING IS IN ALL EVENTS PREMATURE

The mandate of the Ninth Circuit is a remand to the district court for a new damage trial to consider "the value of both tying and tied products, free from the tying arrangement." Appendix A to the Petition at 17. In these circumstances, the franchisees' present request for review of the Ninth Circuit's damage ruling is, at the least, premature.[4]

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[4]Respondents would observe that in contrast to the damage issue, which the Ninth Circuit remanded for trial, all questions respecting the legality of Chicken Delight's franchise contracts were resolved on the merits and are fully matured for consideration by

In reversing the trial court's directed verdict for plaintiffs, the Ninth Circuit has preserved to each of the parties an opportunity to present all evidence pertinent to the damage question at the trial court level. Thus, upon retrial, a full record will be created from which the question of both the fact and the amount of damage can be more fairly ascertained.[5] It is, of course, clear that upon retrial of the damage issue, the franchisees may still prevail in that the fact of damage might be found and damages actually awarded. In that event, this Court may never confront the damage contentions now urged by the franchisees. Conversely, in the event that the franchisees fail at trial with respect to the damage question, their right ultimately to petition this Court for a hearing is fully preserved. *Hamilton-Brown Shoe Co. v. Wolf Bros.*, 240 U.S. 251 (1916); *Panama Railroad Co. v. Napier Shipping Co.*, 166 U.S. 280 (1897); *White v. Higgins*, 116 F.2d 312 (1st Cir. 1940); 9 Moore, Fed. Practice, §110.25[2].

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this Court. As respects legality, both sides were accorded the opportunity of presenting all evidence pertinent to their theory of the case and the record before the Court respecting those aspects of the litigation is thus complete.

[5]It is to be anticipated that the evidentiary record which would be presented to this Court following retrial will be substantially fuller than the record currently at bar, since at the original trial the district court excluded much of Chicken Delight's proffered evidence respecting the value of its trademark license and the revenue practices of comparable franchising firms. Among the excluded evidence was a thorough survey of comparable franchisors' revenue practices and an accountant's computation of Chicken Delight's profits on the sale of required items expressed as a percentage of franchisee gross sales. As noted above, the function of this evidence was to demonstrate that Chicken Delight's mark-up on the required items was substantially equivalent to the initial franchise fees and royalty rates charged by other franchisors for the licensing of their trademarks and system, and that the franchisees had thus suffered no overcharge.

The franchisees' only response to the obvious prematurity of their claims is again the suggestion that a retrial will be overly "long and complex." Petition at 19. Even this claim, however, ignores the conceded fact that whatever the disposition of the damage issue in this Court, the case must still be returned for further proceedings respecting the amount of damages, both on a class-wide and individual basis. There also remain to be considered *de novo* important issues respecting (1) Consolidated Foods Corporation's liability as Chicken Delight's parent corporation, (2) Chicken Delight's counterclaim for goods sold and delivered, (3) Chicken Delight's counterclaim for the reasonable value of its trademark license as against franchisees who have paid nothing therefor during the pendency of these proceedings, and (4) Chicken Delight's claim that, if its franchise agreements be held unlawful, they are voidable and terminable by Chicken Delight for failure of consideration. This latter issue formed the subject matter of the companion petition for mandamus which was denied, without prejudice, by the Ninth Circuit (see Appendix A to the Petition herein at 17-18).

In light of the substantial issues which remain to be tried in all events, any potential economy effected by review of the damage issue at this time is substantially outweighed by the interlocutory character of the damage issue, the opportunity for review upon a more complete record hereafter, and the possibility that no review will even be sought following retrial.

CONCLUSION

The decision of the Ninth Circuit correctly applied established antitrust damage principles to the facts at bar and properly directed that the damage issues should now be fully tried. There is no basis for this Court to review that decision.

Accordingly, for the reasons set forth above, respondents herein respectfully request that the franchisees' Petition for a Writ of Certiorari be denied and further request that their Petition for Writ of Certiorari be granted.

Dated, San Francisco, California,
January 18, 1972.

Respectfully submitted,
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